NM – Not meaningful
N/A – Not applicable

Components of Net Periodic Benefit Cost (Income) *(In millions)*	**2006**			2005			2004		
	U.S.	**Non-U.S.**	**Other**	**U.S.**	**Non-U.S.**	**Other**	**U.S.**	**Non-U.S.**	**Other**
Service cost	**$16.3**	**$ 8.4**	**$ 0.4**	$16.4	$ 6.9	$ 0.5	$14.1	$ 6.3	$ 0.5
Interest cost	**58.2**	**17.8**	**4.0**	57.9	17.1	4.9	59.5	16.4	6.6
Expected return on plan assets	**(53.2)**	**(18.1)**	**—**	(51.1)	(15.5)	—	(50.7)	(14.3)	—
Amortization of prior service cost (credit)	**2.5**	**0.7**	**(10.5)**	5.1	0.7	(12.7)	5.4	0.8	(12.7)
Amortization of net deferred actuarial loss	**23.0**	**8.1**	**0.4**	22.9	8.1	1.6	17.6	6.3	2.6
Net curtailment and settlement loss	**—**	**—**	**—**	1.1	2.3	—	—	0.5	—
Net periodic benefit cost (income)	**$46.8**	**$16.9**	**$ (5.7)**	$52.3	$19.6	$ (5.7)	$45.9	$16.0	$ (3.0)

The estimated aggregate net deferred actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost (income) over the next fiscal year is $27.8 million. The estimated aggregate net deferred actuarial loss and prior service credit for the other postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost (income) over the next fiscal year is $(9.1) million.

Funded Status of U.S. Pension Plans	Fully-Funded U.S. [1] Qualified Pension Plans			Underfunded U.S. [1] Qualified Pension Plans			Unfunded U.S. [2] Nonqualified Plans		
(In millions)	2006	2005	2004	2006	2005	2004	2006	2005	2004
Projected benefit obligation	**$ 7.4**	$ 3.2	$ 2.9	**$ 941.1**	$ 999.4	$ 993.3	**$ 95.6**	$ 91.6	$ 83.4
Fair value of plan assets	**10.1**	5.3	4.4	**727.1**	640.2	661.3	**—**	—	—
Funded status (PBO basis)	**$ 2.7**	$ 2.1	$ 1.5	**$ (214.0)**	$ (359.2)	$ (332.0)	**$ (95.6)**	$ (91.6)	$ (83.4)
Benefits paid	**$ (0.3)**	$ (0.1)	$ (0.1)	**$ (87.2)**	$ (80.4)	$ (69.7)	**$ (5.1)**	$ (10.9)	$ (4.4)
Discount rate	**5.75%**	5.50%	5.50%	**5.75%**	5.50%	5.50%	**5.75%**	5.50%	5.50%

Funded Status of Non-U.S. Pension Plans	Fully-Funded Non-U.S. [1] Pension Plans			Underfunded Non-U.S. [1] Pension Plans			Unfunded Non-U.S. [2] Pension Plans		
(In millions)	2006	2005	2004	2006	2005	2004	2006	2005	2004
Projected benefit obligation	**$ 236.4**	$ 215.5	$ 210.8	**$ 20.3**	$ 18.3	$ 15.7	**$ 132.2**	$ 130.5	$ 134.4
Fair value of plan assets	**272.1**	227.5	218.4	**11.4**	9.6	7.3	**—**	—	—
Funded status (PBO basis)	**$ 35.7**	$ 12.0	$ 7.6	**$ (8.9)**	$ (8.7)	$ (8.4)	**$ (132.2)**	$ (130.5)	$ (134.4)
Benefits paid	**$ (10.1)**	$ (8.9)	$ (8.9)	**$ (0.8)**	$ (0.8)	$ (0.7)	**$ (5.3)**	$ (5.0)	$ (4.8)
Weighted average discount rate	**5.30%**	4.85%	5.39%	**7.46%**	7.01%	6.58%	**4.99%**	4.00%	4.50%

(1) Plans intended to be advance-funded.
(2) Plans intended to be pay-as-you-go.

The accumulated benefit obligation for all defined benefit pension plans was approximately $1,341 million and $1,386 million as of December 31, 2006 and 2005, respectively.

Pension Plans with Underfunded or Unfunded Accumulated Benefit Obligation	U.S.		Non-U.S.	
(In millions)	2006	2005	2006	2005
Projected benefit obligation	**$ 1,036.6**	$ 1,091.0	**$ 149.0**	$ 146.8
Accumulated benefit obligation	**983.2**	1,048.0	**131.0**	132.6
Fair value of plan assets	**$ 727.1**	$ 640.2	**$ 8.4**	$ 8.1

Estimated Expected Future Benefit Payments Reflecting Future Service and Medicare Subsidy Receipts for the Fiscal Year(s) Ending	Pension Plans		Other Postretirement Plans		
	U.S.	Non-U.S.			
(In millions)	Benefit Payments	Benefit Payments	Benefit Payments	Medicare Subsidy Receipts	Total Payments Net of Subsidy
2007	$ 92.0(3)	$ 17.4	$ 9.9	$ (3.1)	$ 116.2
2008	71.3	18.9	7.7	(3.3)	94.6
2009	72.0	19.4	7.4	(3.3)	95.5
2010	73.5	20.0	7.3	—	100.8
2011	74.4	21.4	7.2	—	103.0
2012—2016	$ 394.3	$ 118.9	$ 33.1	$ —	$ 546.3

(3) Excludes $14.5 million of estimated future benefit payments from nonqualified plans that are restricted by the Bankruptcy Court. Assumes lump sum payments are comparable to levels experienced in 2005 and 2006 .

Discount Rate Assumption —The assumed discount rate for pension plans reflects the market rates for high-quality corporate bonds currently available. The assumed discount rate is determined at the annual measurement date of December 31 and is subject to change each year based on changes in the overall market interest rates. For the U.S. qualified pension plans, the assumed discount rate was selected by Grace, in consultation with its independent actuaries, based on a yield curve constructed from a portfolio of high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plan.

As of December 31, 2006 and 2005, the United Kingdom pension plan and German pension plans combined represented 87% of the benefit obligation of the non-U.S. pension plans. For 2006 and 2005, the assumed discount rates for these pension plans were selected by the Company, in consultation with its independent actuaries, based on yield curves constructed from a portfolio of Sterling and Euro denominated high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plans. The assumed discount rates for the remaining non-U.S. pension plans were determined based on the nature of the liabilities, local economic environments and available bond indices.

For 2004 and prior years, Grace, in consultation with its independent actuaries, set the assumed discount rates used for the non-U.S. pension plans based on the nature of the liabilities, local economic environments and available bond indices.

Investment Guidelines for Advance-Funded Pension Plans —The target allocation of investment assets for 2007, the actual allocation at December 31, 2006 and 2005, and the expected long-term rate of return by asset category for Grace's U.S. qualified pension plans are as follows:

U.S. Qualified Pension Plans Asset Category	**Target Allocation 2007**	**Percentage of Plan Assets December 31, 2006**	**Percentage of Plan Assets December 31, 2005**	**Weighted-Average Expected Long-Term Rate of Return 2006**
U.S. equity securities	45%	**46%**	44%	4.46
Non-U.S. equity securities	15%	**16%**	15%	0.76
Short-term debt securities	10%	**11%**	14%	0.60
Intermediate-term debt securities	30%	**27%**	27%	2.18
Total	100%	**100%**	100%	8.00

The investment goal for the U.S. qualified pension plans, subject to advance funding, is to earn a long-term rate of return consistent with the related cash flow profile of the underlying benefit obligation.

The U.S. qualified pension plans have assets managed by five investment managers under investment guidelines summarized as follows:

- For debt securities: single issuers are limited to 5% of the portfolio's market value (with the exception of U.S. government and agency securities); the average credit quality of the portfolio shall be at least A rated; no more than 20% of the market value of the portfolio shall be invested in non-dollar denominated bonds; and privately placed securities are limited to no more than 50% of the portfolio's market value.

- For U.S. equity securities: the portfolio is entirely passively managed through investment in the Dow Jones Wilshire 5000 index fund, which is invested primarily in equity securities with the objective of approximating as closely as possible the capitalization weighted total rate of return of the entire U.S. market for publicly traded securities.

- For non-U.S. equity securities: no individual security shall represent more than 5% of the portfolio's market value at any time; investment in U.S. common stock securities is prohibited (with the exception of American Depository Receipts) and emerging market securities may represent up to 30% of the total portfolio's market value. Currency futures and forward contracts may be held for the sole purpose of hedging existing currency risk in the portfolio.

For 2007, the expected long-term rate of return on assets for the U.S. qualified pension plans is 8.0% (also 8.0% in 2006). Average annual returns over one, two, three, five, ten and fifteen-year periods were 12.26%, 9.27%, 9.45%, 7.58%, 7.17%, and 7.97%, respectively. Negative returns across broad categories of U.S. equity securities in 2000, 2001 and 2002 caused lower returns in periods greater than three years.

The expected return on plan assets for the U.S. qualified pension plans is a conservative rate based on a comparison to historical actual returns and benchmark data. Grace looks at the trailing 20-year and 25-year returns on the plan portfolio under the current target equity to fixed income allocation of 60%/40% to determine a weighted-average rate of return based on historical data. These results are then compared with historical returns of balanced fund indices, as provided by our independent actuaries.

The balanced fund indices are composites of the S&P 500 and the Lehman Brothers Gov't/Credit indices. Grace then evaluates the estimated rates and selects a rate that it believes to be reasonable and conservative, and submits that rate for review by our independent actuaries for reasonableness.

Non-U.S. pension plans accounted for approximately 28% and 27% of total global pension assets at December 31, 2006 and 2005, respectively. Each of these plans, where applicable, follows local requirements and regulations. Some of the local requirements include the establishment of a local pension committee, a formal statement of investment policy and procedures, and routine valuations by plan actuaries.

The target allocation of investment assets for non-U.S. pension plans varies depending on the investment goals of the individual plans. The plan assets of the United Kingdom pension plan represent approximately 83% of the total non-U.S. pension plan assets at December 31, 2006 and 2005. In determining the expected rate of return for the UK plan, the trustees' strategic investment policy has been considered together with long-term historical returns and investment community forecasts for each asset class. The expected return by sector has been combined with the actual asset allocation to determine the expected long-term return assumption of 7.0%.

The target allocation of investment assets for 2007, the actual allocation at December 31, 2006 and 2005, and the expected long-term rate of return by asset category for Grace's United Kingdom pension plan are as follows:

United Kingdom Pension Plans	**Target Allocation**	**Percentage of Plan Assets December 31,**		**Weighted-Average Expected Long-Term Rate of Return**
Asset Category	**2007**	**2006**	**2005**	**2006**
U.K. equity securities	30%	30%	30%	2.55
Non-U.K. equity securities	20%	20%	21%	2.00
U.K. gilts	20%	20%	20%	0.90
U.K. corporate bonds	30%	30%	29%	1.55
Total	100%	100%	100%	7.00

The plan assets of the Canadian pension plans represent approximately 6% of the total non-U.S. pension plan assets at December 31, 2006 and 2005. The target allocation of investment assets for 2007, the actual allocation at December 31, 2006 and 2005, and the expected long-term rate of return by asset category for Grace's Canadian pension plans are as follows:

Canadian Pension Plans	**Target Allocation**	**Percentage of Plan Assets December 31,**		**Weighted-Average Expected Long-Term Rate of Return**
Asset Category	**2007**	**2006**	**2005**	**2006**
Equity securities	55%	55%	59%	5.50
Bonds	45%	45%	41%	2.50
Total	100%	100%	100%	8.00

The plan assets of the other country plans represent approximately 11% in the aggregate (with no country representing more than 3% individually) of total non-U.S. pension plan assets at December 31, 2006 and 2005.

Plan Contributions and Funding —Subject to any required approval of the Bankruptcy Court, Grace intends to satisfy its obligations under the Plans and to comply with all of the requirements of the Employee Retirement Income Security Act of 1974. On June 16, 2006, Grace obtained Bankruptcy Court approval to fund minimum required payments under the Plans of approximately $92 million for the period from July 2006 through January 2007. These estimated payments reflect the impact of the Pension Protection Act of 2006, which extended the interest rates required under the Pension Funding Equity Act of 2004 for plan years commencing in 2006 and 2007. In that regard, Grace contributed approximately $20 million in July 2006, approximately $45 million in September 2006, approximately $6 million in October 2006, and approximately $16 million in January 2007, to the trusts that hold assets of the Plans. However, there can be no assurance that the Bankruptcy Court will continue to approve arrangements to satisfy the funding needs of the Plans. Based on the Plans' status as of December 31, 2006, Grace's ERISA obligations for 2007, 2008, and 2009 would be approximately $93 million, $63 million, and $24 million, respectively. (The 2008 and 2009 obligations do not reflect the impact of the changes required by the Pension Protection Act of 2006 that are effective beginning in 2008.)

Contributions to non-U.S. pension plans are not subject to Bankruptcy Court approval and Grace intends to fund such plans based on applicable legal requirements, and actuarial and trustee recommendations. Grace expects to contribute approximately $16 million to its non-U.S. pension plans and approximately $10 million (excluding any Medicare subsidy receipts) to its other postretirement plans in 2007.

Grace plans to pay benefits as they become due under virtually all pay-as-you-go plans and to maintain compliance with federal funding laws for its U.S. qualified pension plans.

19. Operating Segment Information

Grace is a global producer of specialty chemicals and materials. It generates revenues from two operating segments: Grace Davison, which includes silica- and alumina-based catalysts and materials used in a wide range of industrial applications; and Grace Performance Chemicals, which includes specialty chemicals and materials used in commercial and residential construction and in rigid food and beverage packaging. Intersegment sales, eliminated in consolidation, are not material. The table below presents information related to Grace's operating segments for the years ended December 31, 2006, 2005, and 2004. Only those corporate expenses directly related to the operating segments are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

Operating Segment Data
(In millions)

	2006	2005	2004
Net Sales			
Grace Davison	**$ 1,500.6**	$ 1,370.2	$ 1,192.2
Grace Performance Chemicals	**1,325.9**	1,199.3	1,067.7
Total	**$ 2,826.5**	$ 2,569.5	$ 2,259.9
Pre-tax Operating Income			
Grace Davison	**$ 171.9**	$ 157.1	$ 148.2
Grace Performance Chemicals	**175.7**	151.1	131.8
Corporate	**(107.4)**	(106.7)	(100.7)
Total	**$ 240.2**	$ 201.5	$ 179.3
Depreciation and Amortization			
Grace Davison	**$ 73.9**	$ 76.0	$ 74.6
Grace Performance Chemicals	**38.4**	40.6	38.5
Corporate	**1.2**	4.3	2.2
Total	**$ 113.5**	$ 120.9	$ 115.3
Capital Expenditures			
Grace Davison	**$ 63.4**	$ 48.8	$ 43.4
Grace Performance Chemicals	**46.2**	38.3	30.2
Corporate	**9.6**	6.9	1.7
Total	**$ 119.2**	$ 94.0	$ 75.3
Total Assets			
Grace Davison	**$ 899.2**	$ 869.0	$ 890.9
Grace Performance Chemicals	**694.8**	665.6	674.5
Corporate	**2,043.4**	2,004.0	1,983.6
Total	**$ 3,637.4**	$ 3,538.6	$ 3,549.0

Corporate costs include expenses of corporate headquarters functions incurred in support of core operations, such as corporate financial and legal services, human resources management, communications and regulatory affairs. Corporate costs also include certain pension and postretirement benefits, including the amortization of deferred costs that are considered a core operating expense but not allocated to operating segments.

The following table presents information related to the geographic areas in which Grace operated in 2006, 2005 and 2004. Sales are attributed to geographic areas based on customer location.

Geographic Area Data
(In millions)

	2006	2005	2004
Net Sales			
United States	**$ 1,032.3**	$ 945.4	$ 873.2
Canada and Puerto Rico	**126.5**	141.7	105.8
Total North America	**1,158.8**	1,087.1	979.0
Germany	**138.1**	121.0	111.6
Europe, other than Germany	**932.9**	815.1	704.1
Total Europe	**1,071.0**	936.1	815.7
Asia Pacific	**443.2**	403.2	349.2
Latin America	**153.5**	143.1	116.0
Total	**$ 2,826.5**	$ 2,569.5	$ 2,259.9
Properties and Equipment, net			
United States	**$ 400.2**	$ 384.1	$ 395.1
Canada and Puerto Rico	**18.7**	19.8	19.9
Total North America	**418.9**	403.9	415.0
Germany	**116.2**	105.0	126.6
Europe, other than Germany	**70.5**	66.6	80.3
Total Europe	**186.7**	171.6	206.9
Asia Pacific	**44.1**	43.8	49.4
Latin America	**14.8**	13.6	12.3
Total	**$ 664.5**	$ 632.9	$ 683.6
Goodwill and Other Assets			
United States	**$ 133.2**	$ 153.5	$ 116.7
Canada and Puerto Rico	**10.3**	17.9	18.3
Total North America	**143.5**	171.4	135.0

Germany	**42.9**	41.2	50.2
Europe, other than Germany	**74.4**	136.3	154.1
Total Europe	**117.3**	177.5	204.3
Asia Pacific	**10.2**	10.8	10.6
Latin America	**15.4**	15.8	13.4
Total	**$ 286.4**	$ 375.5	$ 363.3

Cash value of life insurance policies, net of policy loans and asbestos-related insurance are held entirely in the U.S.

The pre-tax operating income for Grace's operating segments for the years ended December 31, 2006, 2005 and 2004 is reconciled below to income (loss) before income taxes and minority interest presented in the accompanying Consolidated Statements of Operations.

Reconciliation of Operating Segment Data to Financial Statements

(In millions)	2006	2005	2004
Pre-tax operating income—core operations	**$ 240.2**	$ 201.5	$ 179.3
Minority interest in consolidated entities	**34.4**	21.1	8.7
Chapter 11 expenses, net of interest income	**(49.9)**	(30.9)	(18.0)
Net gain (loss) on sale of investments and disposal of assets	**0.6**	(0.7)	(0.8)
Provision for environmental remediation	**(30.0)**	(25.0)	(21.6)
Provision for asbestos-related litigation, net	**—**	—	(476.6)
Net gain from litigation settlement	**—**	—	51.2
Interest expense and related financing costs	**(73.2)**	(55.3)	(111.1)
Other, net	**(61.3)**	(1.0)	(6.2)
Income (loss) before income taxes and minority interest	**$ 60.8**	$ 109.7	$ (395.1)

Minority interest primarily pertains to Advanced Refining Technologies LLC, a joint venture between Grace and Chevron Products Company where Grace has a 55% economic interest.

20. Minority Interest in Consolidated Entities

Within both Grace Davison and Grace Performance Chemicals, Grace conducts certain business activities in various countries through joint ventures with unaffiliated third parties. The following table presents summary financial statistics for Grace's combined businesses subject to profit sharing:

	Year Ended December 31,		
(In millions)	2006	2005	2004
Sales	**$ 397.9**	$ 341.7	$ 225.6
Income before taxes	**79.1**	49.3	22.3
Net income	**77.9**	47.5	19.9
Minority interests in net income	**34.4**	21.1	8.7
Cash	**65.5**	15.0	8.6
Other current assets	**136.7**	119.9	87.1
Total assets	**212.4**	146.3	107.9
Total liabilities	**66.9**	61.5	67.2
Shareholders' equity	**145.5**	84.8	40.7
Minority interests in shareholders' equity	**65.0**	36.4	15.4

21. Quarterly Summary and Statistical Information (Unaudited)

Quarterly Summary and Statistical Information *(Unaudited)*

(In millions, except per share)	March 31	June 30 [1]	September 30	December 31
2006				
Net sales	$ 658.6	$ 729.1	$ 741.4	$ 697.4
Cost of goods sold	438.0	470.2	483.8	453.0
Net income (loss)	0.1	(5.2)	18.4	5.0
Net income (loss) per share: [2]				
Basic earnings (loss) per share:				
Net income (loss)	$ 0.00	$ (0.08)	$ 0.27	$ 0.07
Diluted earnings (loss) per share:				
Net income (loss)	0.00	(0.08)	0.27	0.07
Market price of common stock: [3]				
High	$ 13.85	$ 17.49	$ 13.26	$ 20.35
Low	9.15	10.69	8.12	12.19
Close	13.30	11.70	13.26	19.80

	March 31	June 30	September 30	December 31 [1]
2005				
Net sales	$ 603.2	$ 676.5	$ 653.4	$ 636.4
Cost of goods sold	392.7	439.7	426.0	431.4
Net income (loss)	3.1	32.7	32.1	(0.6)
Net income (loss) per share: [2]				
Basic earnings (loss) per share:				
Net income (loss)	$ 0.05	$ 0.49	$ 0.48	$ (0.01)
Diluted earnings (loss) per share:				
Net income (loss)	0.05	0.49	0.48	(0.01)
Market price of common stock: [3]				
High	$ 13.79	$ 11.59	$ 11.72	$ 10.47
Low	8.49	7.11	7.32	6.75
Close	8.52	7.79	8.95	9.40

(1) Second quarter 2006 net loss includes a provision for environmental remediation of $30.0 million and fourth quarter 2005 net loss contains a provision for environmental remediation of $25.0 million.

(2) Per share results for the four quarters may differ from full-year per share results, as a separate computation of the weighted average number of shares outstanding is made for each quarter presented.

(3) Principal market: New York Stock Exchange .

Financial Summary [1]

(In millions, except per share amounts)	2006	2005	2004	2003	2002
Statement of Operations					
Net sales	**$ 2,826.5**	$ 2,569.5	$ 2,259.9	$ 1,980.5	$ 1,819.7
Income (loss) from continuing operations before income taxes and minority interest [2]	**60.8**	109.7	(395.1)	(68.7)	62.3
Minority interest in consolidated entities	**(34.4)**	(21.1)	(8.7)	1.2	(2.2)
Net income (loss) [2]	**18.3**	67.3	(402.3)	(55.2)	22.1
Financial Position					
Cash and cash equivalents	**$ 536.3**	$ 474.7	$ 510.4	$ 309.2	$ 283.6
Properties and equipment, net	**664.5**	632.9	683.6	688.8	622.2
Total assets	**3,637.4**	3,538.6	3,553.1	2,882.3	2,700.7
Total liabilities	**4,187.2**	4,133.9	4,174.9	3,046.1	2,922.9
Liabilities subject to compromise (a subset of total liabilities)	**3,221.6**	3,155.1	3,207.7	2,452.3	2,334.7
Shareholders' equity (deficit)	**(549.8)**	(595.3)	(621.8)	(163.8)	(222.2)
Cash Flow					
Operating activities	**$ 152.7**	$ 67.3	$ 325.4	$ 111.7	$ 194.6
Investing activities	**(129.4)**	(77.9)	(138.0)	(110.0)	(109.8)
Financing activities	**21.9**	(10.1)	(0.7)	(4.7)	(9.2)
Net cash flow	**61.6**	(35.7)	201.2	25.6	91.7
Data Per Common Share (Diluted)					
Net income (loss) [2]	**$ 0.27**	$ 1.00	$ (6.11)	$ (0.84)	$ 0.34
Average common diluted shares outstanding (thousands)	**68,300**	67,300	65,800	65,500	65,500
Other Statistics					
Capital expenditures	**$ 119.2**	$ 94.0	$ 75.3	$ 87.3	$ 90.2
Common stock price range	**$ 8.12-20.35**	$ 6.75-13.79	$ 2.51-14.95	$ 1.48-5.52	$ 0.99-3.75
Common shareholders of record	**9,522**	9,883	10,275	10,734	11,187
Number of employees (approximately)	**6,500**	6,400	6,500	6,300	6,400

(1) Certain prior-year amounts have been reclassified to conform to the 2006 presentation.

(2) Amounts in 2006 and 2005 contain provisions for environmental remediation of $30.0 million and $25.0 million, respectively. Amounts in 2004 reflect the following adjustments: a $714.8 million pre-tax charge to increase Grace's recorded asbestos-related liability to the maximum amount permitted as a condition precedent under Grace's Plan of Reorganization (the "Plan"); a pre-tax credit for expected insurance recovery related to asbestos liabilities of $238.2 million; a $94.1 million pre-tax charge to increase the interest to which general unsecured creditors would be entitled under the Plan; a $151.7 million pre-tax credit for net income tax benefits related to the above items; and an $82.0 million tax liability on the expected taxable distributions from foreign subsidiaries to fund the Plan. Amounts in 2003 contain a provision for environmental remediation of $142.5 million and a provision for asbestos-related claims of $30.0 million. Amounts in 2002 contain a provision for environmental remediation of $70.7 million.

Financial Summary for December 31, 2006

Following is a summary analysis of key financial measures of our performance for the year ended December 31, 2006 compared with the prior year.

- Sales for the year ended December 31, 2006 were $2,826.5 million compared with $2,569.5 million for the prior year, a 10.0% increase (9.9% before the effects of currency translation). The increase was attributable to added sales volume in all geographic regions and higher selling prices in response to cost inflation.

- Net results for each period has been primarily affected by: 1) the performance of our businesses—which is categorized as "core operations"; and 2) the impact of legal contingencies and other nonoperating liabilities—which is categorized as "noncore activities."

- Net income for 2006 was $18.3 million compared with net income in 2005 of $67.3 million. The lower net income in 2006 was principally caused by a $32.7 million increase in defense costs for the criminal proceeding related to our former vermiculite mining operations in Montana, and a $19.0 million increase in Chapter 11-related expenses.

- Pre-tax income from core operations was $240.2 million for the year, a 19.2% increase over 2005, primarily attributable to higher sales volume in all geographic regions, higher selling prices to offset cost inflation, and lower overall pension costs.

- Pre-tax operating income of our Grace Performance Chemicals operating segment was $175.7 million compared with $151.1 million for the prior year, a 16.3% increase, with operating margin increasing 0.7 basis points to 13.3%. The increase in operating income and margin reflects higher sales volume globally, price increases, and positive results from productivity and cost containment initiatives, partially offset by raw material inflation.

- Pre-tax operating income of our Grace Davison operating segment was $171.9 million compared with $157.1 million for the prior year, a 9.4% increase, with operating margins of 11.5%, equal with last year. The increase in operating income reflects higher volume and selling prices in most geographic regions and product groups, which partially offset increases in the cost of certain raw materials and energy. Other positive factors include the containment of fixed operating costs as a percentage of sales and the recovery from the hurricanes in the Gulf of Mexico in the latter half of 2005.

- Operating cash flow for 2006 was $152.7 million, compared with $67.3 million for 2005. The change in cash flow from operating activities is principally attributable to improved core operating results and better working capital management. Other major factors affecting the change include the non-recurring payment of $119.7 million to settle tax and environmental contingencies in 2005 and an increase in 2006 of $73.8 million to fund defined benefit pension arrangements.

- Pre-tax loss from noncore activities was $(97.7) million and $(30.3) million for the years ended December 31, 2006 and 2005, respectively. These noncore losses are principally due to revised estimates of environmental remediation costs ($30.0 million in 2006 and $25.0 million in 2005) and significant legal defense costs ($52.7 million in 2006 and $20.0 million in 2005 included in selling, general and administrative expenses in the Consolidated Statements of Operations), both related to issues arising from our former vermiculite mining operations in Montana.

We are attempting to resolve noncore liabilities and contingencies through our Chapter 11 proceeding. Our noncore liabilities include asbestos-related litigation, environmental remediation, tax disputes and business litigation. Our operating statements include periodic adjustments to account for changes in estimates of such liabilities and developments in our Chapter 11 proceeding. These liabilities and contingencies may result in continued volatility in net results in the future.

We present the net costs of our reorganization under Chapter 11 of the U.S. Bankruptcy Code as "Chapter 11 expenses, net of interest income," a separate caption in our Consolidated Statements of Operations. Chapter 11 expenses are not included in the measures of income from core operations or income (loss) from noncore operations.

Description of Core Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through two operating segments:

Grace Davison includes:

- Catalysts and chemical additives used by petroleum refiners, including fluid catalytic cracking, or FCC, catalysts, that help to "crack" the hydrocarbon chain in distilled crude oil to produce transportation fuels and other petroleum-based products, and FCC additives used to reduce sulfur in gasoline, maximize propylene production from refinery FCC units, and reduce emissions of sulfur oxides, nitrogen oxides and carbon monoxide from refinery FCC units;

- Hydroprocessing catalysts used by petroleum refiners in process reactors to upgrade heavy oils into lighter, more useful products by removing impurities such as nitrogen, sulfur and heavy metals, allowing less expensive feedstocks to be used in the petroleum refining process;

- Specialty catalysts, including polyolefin catalysts and catalyst supports that are essential components in the manufacture of polyethylene and polypropylene resins, and other chemical catalysts used in a variety of industrial, environmental and consumer applications;

- Silica-based and silica-alumina-based engineered materials used in:

    - industrial markets, such as coatings, plastics and rubber, precision investment casting, refractory, insulating glass windows, desiccants, and gas and liquids purification;

    - consumer applications, such as food products, toothpaste, pharmaceutical and personal care products, and the processing of edible oils and beverages;

    - digital media coatings for ink jet papers; and

- Silica- and polymer-based materials and chromatography columns, instruments, consumables and accessories used in life and analytical sciences applications.

We conduct our hydroprocessing catalyst business through Advanced Refining Technologies, LLC ("ART"), our joint venture with Chevron Products Company ("Chevron"). We report 100% of the revenues of the ART joint venture, but only receive 55% of the income after minority interest is allocated to Chevron.

Key external factors for our FCC catalysts and hydroprocessing catalysts are the economics of the petroleum refining industry, specifically the impacts of demand for transportation fuels and petrochemical products, and crude oil supply. FCC catalysts are consumed at a relatively steady rate and replaced regularly, while hydroprocessing catalysts are consumed over a period of years and replaced in an irregular pattern.

Sales of our other three Grace Davison product groups are affected by general economic conditions including the underlying growth rate of targeted end-use applications.

Grace Performance Chemicals includes:

- Specialty chemicals and materials, including concrete admixtures and fibers used to improve the durability and working properties of concrete, additives used in cement processing to improve energy efficiency, enhance the characteristics of finished cement and improve ease of use, building materials used in commercial and residential construction and renovation to protect buildings from water, vapor and air penetration, and fireproofing materials used to protect buildings in the event of fire; and

- Darex® packaging products and technologies, primarily specialty sealants and coatings used in rigid food and beverage packages, including can and closure sealants used to seal and enhance the shelf life of can and bottle contents, and coatings for cans and closures that prevent metal corrosion, protect package contents from the influence of metal and ensure proper adhesion of sealing compounds.

Construction products sales are primarily impacted by global non-residential construction activity and U.S. residential construction activity.

Our packaging technologies sales are affected by regional economic conditions as well as an ongoing shift in demand away from metal containers to plastic packaging for foods and beverages. This shift has caused a decline in can sealant usage

over recent years, but provides opportunities for increased sales of closure sealants, coatings and other products for plastic packaging.

Global scope— We operate our business on a global scale with approximately 63% of our revenue (see table below) and over 50% of our operating properties outside the United States. We conduct business in more than 40 countries and in more than 20 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations in relation to the U.S. dollar affect our reported earnings, net assets and cash flows.

The table below shows the sales in each of our operating segments, and domestic and international sales, as a percentage of our total sales.

Percentage of Total Grace Sales	2006	2005	2004
Grace Davison	**53.1%**	53.3%	52.8%
Grace Performance Chemicals	**46.9%**	46.7%	47.2%
Total	**100.0%**	100.0%	100.0%
Grace U.S.	**36.5%**	36.8%	38.6%
Grace non-U.S.	**63.5%**	63.2%	61.4%
Total	**100.0%**	100.0%	100.0%

Voluntary Bankruptcy Filing

In response to a sharply increasing number of asbestos-related personal injury claims, on April 2, 2001, Grace and 61 of our United States subsidiaries and affiliates, including W. R. Grace & Co.—Conn., filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Our non-U.S. subsidiaries and certain of our U.S. subsidiaries were not included in the Chapter 11 filing.

Under Chapter 11, we have continued to operate as debtors-in-possession under court protection from creditors and claimants, while using the Chapter 11 process to develop and implement a plan for addressing the asbestos-related claims. Since the Chapter 11 filing, the bankruptcy court has approved all motions necessary to conduct normal business activities.

On January 13, 2005, we filed an amended plan of reorganization and related documents with the bankruptcy court. The plan of reorganization is supported by committees representing general unsecured creditors and equity holders, but is not supported by committees representing asbestos personal injury claimants and asbestos property damage claimants or the representative of future asbestos claimants. Under the terms of the plan of reorganization, a trust would be established to which all pending and future asbestos-related claims would be channeled for resolution. The plan of reorganization can become effective only after a vote of eligible creditors and with the approval of the bankruptcy court and the U.S. District Court for the District of Delaware. See "Plan of Reorganization" below for more information.

Summary Financial Information and Metrics

Set forth on the following page is a chart that lists our key operating statistics, and dollar and percentage changes for the years ended December 31, 2006, 2005 and 2004. Please refer to this Analysis of Continuing Operations chart when reading Management's Discussion and Analysis of Financial Condition and Results of Operations.

In the Analysis of Continuing Operations chart, as well as in the financial information presented throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, we present our financial results in the same manner as results are reviewed internally. We break out our results of operations by operating segment and between "core operations" and "noncore activities." Core operations comprise the financial results of Grace Davison, Grace Performance Chemicals, and the costs of corporate activities that directly or indirectly support our business operations. In contrast, noncore activities comprise all other events and transactions not directly related to the generation of operating revenue or the support of our core operations and generally relate to our former operations and products. See "Pre-tax Income (Loss) from Noncore Activities" for more information about noncore activities. We use pre-tax income from core operations as the performance factor in determining certain incentive compensation and as the profitability factor in all significant business decisions.

Pre-tax income from core operations, pre-tax income (loss) from noncore activities, pre-tax income from core operations as a percentage of sales, and pre-tax income from core operations before depreciation and amortization do not purport to represent income or cash flow measures as defined under U.S. generally accepted accounting principles, and you should not consider them an alternative to such measures as an indicator of our performance. We provide these measures so you can distinguish the operating results of our current business base from the income and expenses of our past businesses, discontinued products, and corporate legacies, and the effect of our Chapter 11 proceedings, and to ensure that you understand the key data that management uses to evaluate our results of operations.

Pre-tax income from core operations has material limitations as an operating performance measure because it excludes income and expenses that comprise our noncore activities, which include, among other things, provisions for asbestos-related litigation and environmental remediation, income from insurance settlements, and legal defense costs, all of which have been material components of our net income (loss). Pre-tax income from core operations before depreciation and amortization also has material limitations as an operating performance measure since it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of our capital assets; therefore, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue. We compensate for the limitations of these measurements by using these indicators together with net income (loss) as measured under U.S. generally accepted accounting principles to present a complete analysis of our results of operations. You should evaluate pre-tax income from core operations and pre-tax income from core operations before depreciation and amortization in conjunction with net income (loss) for a more complete analysis of our financial results.

Analysis of Continuing Operations *(In millions)*	**2006**	**2005**	**$ Change Fav (Unfav)**	**% Change Fav (Unfav)**	**2004**	**$ Change Fav (Unfav)**	**% Change Fav (Unfav)**
Net sales:							
Grace Davison	$ **1,500.6**	$ 1,370.2	$ 130.4	9.5%	$ 1,192.2	$ 178.0	14.9%
Grace Performance Chemicals	**1,325.9**	1,199.3	126.6	10.6%	1,067.7	131.6	12.3%
Total Grace net sales	$ **2,826.5**	$ 2,569.5	$ 257.0	10.0%	$ 2,259.9	$ 309.6	13.7%
Pre-tax operating income:							
Grace Davison [1]	$ **171.9**	$ 157.1	$ 14.8	9.4%	$ 148.2	$ 8.9	6.0%
Grace Performance Chemicals [2]	**175.7**	151.1	24.6	16.3%	131.8	19.3	14.6%
Corporate costs:							
Support functions	**(46.3)**	(41.4)	(4.9)	(11.8%)	(33.4)	(8.0)	(24.0%)
Pension, performance-related compensation, and other	**(61.1)**	(65.3)	4.2	6.4%	(67.3)	2.0	3.0%
Total Corporate costs	**(107.4)**	(106.7)	(0.7)	(0.7%)	(100.7)	(6.0)	(6.0%)
Pre-tax income from core operations	**240.2**	201.5	38.7	19.2%	179.3	22.2	12.4%
Pre-tax income (loss) from noncore activities	**(97.7)**	(30.3)	(67.4)	NM	(457.1)	426.8	93.4%
Interest expense	**(73.2)**	(55.3)	(17.9)	(32.4%)	(111.1)	55.8	50.2%
Interest income	**7.0**	3.6	3.4	94.4%	3.1	0.5	16.1%
Income (loss) before Chapter 11 expenses and income taxes	**76.3**	119.5	(43.2)	(36.2%)	(385.8)	505.3	131.0%
Chapter 11 expenses, net of interest income	**(49.9)**	(30.9)	(19.0)	(61.5%)	(18.0)	(12.9)	(71.7%)
Benefit from (provision for) income taxes	**(8.1)**	(21.3)	13.2	62.0%	1.5	(22.8)	NM
Net income (loss)	$ **18.3**	$ 67.3	$ (49.0)	(72.8%)	$ (402.3)	$ 469.6	116.7%
Key Financial Measures:							
Pre-tax income from core operations as a percentage of sales:							
Grace Davison	**11.5%**	11.5%	NM	0.0 pts	12.4%	NM	(0.9) pts
Grace Performance Chemicals	**13.3%**	12.6%	NM	0.7 pts	12.3%	NM	0.3 pts
Total Core Operations	**8.5%**	7.8%	NM	0.7 pts	7.9%	NM	(0.1) pts
Total Core Operations adjusted for profit sharing of joint ventures [3]	**9.7%**	8.7%	NM	1.0 pts	8.3%	NM	0.4 pts
Pre-tax income from core operations before depreciation and amortization	$ **353.7**	$ 322.4	$ 31.3	9.7%	$ 294.6	$ 27.8	9.4%
As a percentage of sales	**12.5%**	12.5%	NM	0.0 pts	13.0%	NM	(0.5) pts
Depreciation and amortization	$ **113.5**	$ 120.9	$ 7.4	6.1%	$ 115.3	$ (5.6)	(4.9%)
Gross profit percentage (sales less cost of goods sold as a percent of sales) [4]:							
Grace Davison	**30.1%**	28.8%	NM	1.3 pts	30.7%	NM	(1.9) pts
Grace Performance Chemicals	**34.4%**	34.0%	NM	0.4 pts	35.5%	NM	(1.5) pts
Total Grace	**31.9%**	31.0%	NM	0.9 pts	33.0%	NM	(2.0) pts
Net Consolidated Sales by Region:							
North America	$ **1,158.8**	$ 1,087.1	$ 71.7	6.6%	$ 979.0	$ 108.1	11.0%
Europe	**1,071.0**	936.1	134.9	14.4%	815.7	120.4	14.8%
Asia Pacific	**443.2**	403.2	40.0	9.9%	349.2	54.0	15.5%
Latin America	**153.5**	143.1	10.4	7.3%	116.0	27.1	23.4%
Total	$ **2,826.5**	$ 2,569.5	$ 257.0	10.0%	$ 2,259.9	$ 309.6	13.7%

NM = Not meaningful

(1) Grace Davison pre-tax operating income includes minority interest related to the Advanced Refining Technologies joint venture.
(2) Grace Performance Chemicals pre-tax operating income includes minority interests related to consolidated joint ventures.
(3) Reflects the add-back of minority interests in consolidated entities.
(4) Includes depreciation and amortization related to manufacturing of products.

Grace Overview

The following is an overview of our financial performance for the years ended December 31, 2006, 2005 and 2004.

Net Sales —The following table identifies the year-over-year increase or decrease in sales attributable to changes in product volume, product price and/or mix, and the impact of foreign currency translation.

Net Sales Variance Analysis

	2006 as a Percentage Increase (Decrease) from 2005			
	Volume	Price/Mix	Currency Translation	Total
Grace Davison	6.5%	3.0%	0.0%	9.5%
Grace Performance Chemicals	6.9%	3.5%	0.2%	10.6%
Net sales	6.7%	3.2%	0.1%	10.0%
By Region:				
North America	4.0%	2.3%	0.3%	6.6%
Europe	10.1%	4.8%	(0.5%)	14.4%
Asia Pacific	7.6%	1.8%	0.5%	9.9%
Latin America	3.1%	2.5%	1.7%	7.3%

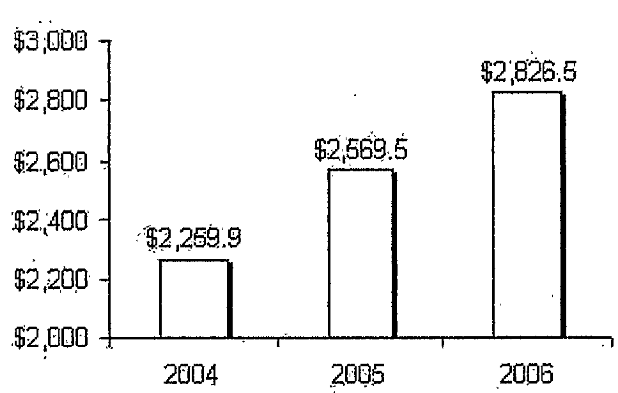
	2005 as a Percentage Increase (Decrease) from 2004			
	Volume	Price/Mix	Currency Translation	Total
Grace Davison	3.9%	10.3%	0.7%	14.9%
Grace Performance Chemicals	8.0%	3.1%	1.2%	12.3%
Net sales	5.8%	7.0%	0.9%	13.7%
By Region:				
North America	3.0%	7.8%	0.2%	11.0%
Europe	8.0%	5.6%	1.2%	14.8%
Asia Pacific	5.8%	8.4%	1.3%	15.5%
Latin America	14.3%	5.7%	3.4%	23.4%

Sales for 2006 were favorably impacted by higher volume, selling price increases and product mix. Acquisitions contributed $13.2 million or 0.5 percentage points of the sales growth.

Sales for 2005 were favorably impacted by higher volume, product mix, price increases, and favorable currency translation from a weaker U.S. dollar. Acquisitions contributed $42.5 million or 1.9 percentage points of the sales growth.

Sales from non-U.S. operations were not materially impacted by foreign currency translation in 2006 and 2005.

Grace Net Sales
($ in millions)



Pre-tax Income from Core Operations —Operating profit for 2006 improved over 2005 due to sales volume growth, selling price increases, and the negative effects of the hurricanes in the Gulf of Mexico in 2005, partially offset by raw material cost inflation.

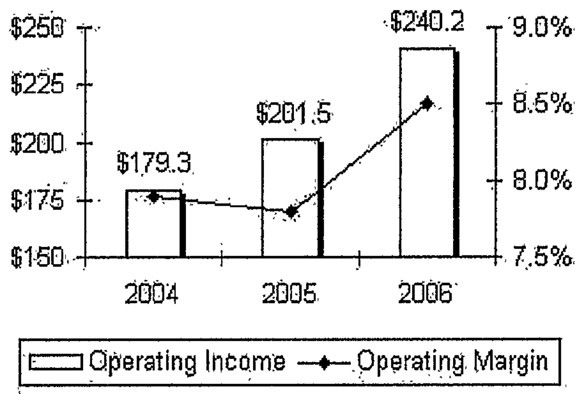
Corporate costs include corporate functional costs (such as financial and legal services, human resources, communications and information technology), the cost of corporate governance (including directors and officers liability insurance) and pension costs related to both corporate employees and to the effects of changes in assets and liabilities for all of our pension plans. Corporate costs for the year ended December 31, 2006 increased compared with 2005 primarily due to increased functional costs required to support business and corporate initiatives.

We value our U.S. inventories under the last-in/first- out method, or LIFO, and our non-U.S. inventories under the first-in/first-out, or FIFO, method. LIFO was selected in 1974 for U.S. financial reporting and tax purposes because it generally results in a better matching of current revenue with current costs during periods of inflation. We have not elected LIFO for our non-U.S. inventories due to statutory restrictions. However, if we valued our U.S. inventories using the FIFO method, consistent with our non-U.S. subsidiaries, our pre-tax income from core operations would have been approximately 6.2% lower for 2006 and 6.7% higher for 2005. The significant change in inventory valuations between FIFO and LIFO relates primarily to the price volatility, over the past several quarters, of commodity metals and natural gas used in Grace Davison products and production processes. We attempt to mitigate price volatility through hedging techniques such as layering our required supply under fixed delivery contracts, entering into

commodity option and swap contracts with suppliers and financial institutions, and by negotiating sales contracts that permit the partial pass-through of market price increases for these volatile commodity items.

We normally attempt to lock in raw material costs through long-term supply contracts and targeted hedging programs. Arrangements and programs can span a few months to several years. Major raw materials include natural gas, certain metals, petroleum-based materials and certain industrial chemicals. The actual cost of these raw materials can differ significantly from spot prices at any point in time. Our reported gross profit for the periods presented has been favorably impacted by certain raw material supply arrangements and unfavorably affected by others, relative to the then-current market price. We expect that new supply agreements and hedging arrangements will result in raw material costs that can be significantly favorable or unfavorable compared with prior periods. We attempt to mitigate period-over-period commodity-driven cost changes through utilization and customer pricing strategies; however, gross profit margins will likely be affected when compared over time.

Grace
Operating Income and Margin
($ in millions)



Pre-tax Income (Loss) from Noncore Activities —Pre-tax income (loss) from noncore activities reflects financial matters unrelated to our core operations. This category of costs and income is expected to be volatile as potentially material items are addressed through our Chapter 11 proceedings and/or as the financial implications of our legal contingencies become apparent. Some noncore activities are shown as separate items on the Consolidated Statement of Operations. Those not separately listed are primarily included in selling, general and administrative expenses and in other (income) expense. The following table shows the components of noncore activities, and the captions in which each component is presented in the Consolidated Statements of Operations:

(In millions)	2006	2005	2004
Provision for environmental remediation—vermiculite	**$ (29.4)**	$ (22.3)	$ (20.0)
Provision for environmental remediation—other sites	**(0.6)**	(2.7)	(1.6)
Total provision for environmental remediation	**$ (30.0)**	$ (25.0)	$ (21.6)
Insurance settlements—environmental and asbestos-related	**12.5**	44.5	11.1
COLI income, net	**4.1**	3.5	3.0
Translation effects—intercompany loan	**23.1**	(35.9)	29.3
Value of currency contracts	**(21.5)**	35.7	(39.5)
Net gain from litigation settlement	—	—	51.2
Net gain on sale of real estate	**3.9**	—	—
Other	—	2.4	2.8
Total other (income) expense, net	**$ 22.1**	$ 50.2	$ 57.9
D&O insurance cost—portion related to Chapter 11	**(6.1)**	(5.7)	(6.8)
Asbestos administration	**(11.6)**	(9.9)	(0.7)
Postretirement benefit costs—divested businesses	**3.5**	3.0	1.0
Stock appreciation rights	**(2.9)**	—	—
Legal defense costs	**(53.4)**	(22.0)	—
Other	**(7.9)**	(8.4)	0.3
Total selling, general and administrative expenses	**$ (78.4)**	$ (43.0)	$ (6.2)
Net pension costs—divested businesses	**(11.4)**	(12.5)	(10.6)
Total net pension expense	**$ (11.4)**	$ (12.5)	$ (10.6)
Provision for asbestos-related litigation, net	—	—	(476.6)
Total provision for asbestos-related litigation, net of insurance	**$ —**	$ —	$ (476.6)
Total pre-tax income (loss) from noncore activities	**$ (97.7)**	$ (30.3)	$ (457.1)

The change in the pre-tax loss from noncore activities from 2005 to 2006 is attributable primarily to:

- An increase in legal defense costs of $31.4 million, primarily related to the Montana legal proceeding (see Note 14 to the Consolidated Financial Statements for more information), and

- $44.5 million received from insurance carriers in 2005 with respect to coverage for past environmental remediation costs and asbestos-related liability under liquidation arrangements or dispute settlements, as compared with $12.5 million in 2006.

The change in the pre-tax loss from noncore activities from 2004 to 2005 is attributable primarily to:

- A pre-tax charge of $714.8 million ($476.6 million net of estimated insurance proceeds) in 2004 to increase our recorded asbestos-related liability (see Note 3 to the Consolidated Financial Statements for more information), and

- A net gain of $51.2 million in 2004 from the settlement of litigation under an agreement with Honeywell International, Inc. related to environmental contamination of a non-operating parcel of land.

In March 2004, we began accounting for currency fluctuations on a €293 million intercompany loan between our subsidiaries in the United States and Germany as a component of operating results instead of as a component of other comprehensive income. This change was prompted by an analysis of new tax laws in Germany and our cash flow planning in connection with our Chapter 11 reorganization, which together indicated that we should no longer consider this loan as part of our permanent capital structure in Germany. In May 2004, we entered into a series of foreign currency forward contracts with a U.S. bank to mitigate future currency fluctuations on the remaining loan balance. Contract amounts of €200.7 million were extended in June 2005 at varying rates and have terms that coincide with loan repayments due periodically through December 2008. As part of the contract extension, we were required to pay a settlement premium of $9.3 million to the bank. We expect to recover this settlement premium over time as the contracts are settled at rates greater than the initial rates in the May 2004 foreign currency forward contracts. We repaid €65.9 million of loan principal in 2006. We made no loan repayments in 2005. We recognized a $21.5 million contract loss and a $35.7 million contract gain in 2006 and 2005, respectively, offset by a foreign currency gain of $23.1 million in 2006 and a foreign currency loss of $35.9 million in 2005.

Chapter 11 Expenses —Although we are unable to measure precisely the impact of the Chapter 11 proceedings on our overall financial performance, we incur significant added costs that are directly attributable to operating in Chapter 11. Net Chapter 11 expenses consist primarily of legal, financial and consulting fees that we, the three creditors' committees, the equity committee and the representative of future asbestos claimants, incur, reduced by interest income earned on cash and cash equivalents held by our entities subject to Chapter 11. We pay for the costs of all committees, and the committees' advisors. These costs fluctuate with the activity in our Chapter 11 proceedings.

Our pre-tax income from core operations included expenses for Chapter 11-related compensation charges of $21.9 million, $17.5 million, and $28.9 million for the years ended December 31, 2006, 2005, and 2004, respectively. Because of the uncertain outcome of the Chapter 11 proceeding and the volatility and speculative nature of Grace common stock, we changed our long-term incentive compensation from an equity-based to a cash-based program.

We incur numerous other indirect costs to manage the Chapter 11 proceedings such as: management time devoted to Chapter 11 matters; added cost of debt capital; added costs of general business insurance, including D&O liability insurance premiums; and lost business and acquisition opportunities due to the complexities and restrictions of operating under Chapter 11.

Interest Expense —Interest expense increased in 2006 compared to 2005 due to a change in the rate of interest on prepetition bank debt as noted below. The plan of reorganization states that each holder of an allowed general unsecured claim shall be paid in full, plus post-petition interest. Post-petition interest shall accrue through the date of payment as follows:

- For the holders of pre-petition bank credit facilities, beginning January 1, 2006, we agreed to pay interest on pre-petition bank debt at the prime rate, adjusted for periodic changes, and compounded quarterly. The effective rate for 2006 was 7.96%. From April 2, 2001, the voluntary bankruptcy filing date, through December 31, 2005, we accrued interest on pre-petition bank debt at a negotiated fixed annual rate of 6.09%, compounded quarterly.

- For the holders of claims who, but for the Chapter 11 filing, would be entitled under a contract or otherwise to accrue or be paid interest on such claim in a non-default (or non-overdue payment) situation under applicable non-bankruptcy law, the rate provided in the contract between the Grace entity and the claimant or such rate as may otherwise apply under applicable non-bankruptcy law.

- For all other holders of allowed general unsecured claims, at a rate of 4.19% per annum, compounded annually.

The effective interest rates for 2006, 2005 and 2004 were 6.7%, 5.2% and 5.0%, respectively. Such interest, which under the plan of reorganization is payable 85% in cash and 15% in Grace common stock, will not be paid until the plan of reorganization is confirmed and funded.

Income Taxes —Income tax benefit (provision) at the federal corporate rate of 35% for the years ended December 31, 2006, 2005, and 2004 was \$(9.2) million, \$(31.0) million, and \$141.3 million, respectively. Our recorded tax provision of \$(8.1) million for 2006 reflects a net reduction from the statutory tax benefit due to (1) recognition of tax benefits by a non-U.S. subsidiary prompted by published final guidance on the deductibility of certain expenses, (2) a final settlement offer issued by the IRS, (3) a favorable reassessment regarding the recoverability of recorded tax assets and (4) an increase in the tax provision related to future repatriation of earnings from foreign subsidiaries. In 2005, our recorded tax provision of \$(21.3) million reflected a reduction from the statutory tax benefit due to (1) a favorable reassessment of certain tax contingencies, and (2) a release of the valuation allowance in a non-U.S. subsidiary prompted by a favorable law change.

As part of our evaluation and planning for the funding requirements of the plan of reorganization, we have concluded that the financing of the plan of reorganization will likely involve cash and financing from non-U.S. subsidiaries. We anticipate that approximately \$680 million will be sourced in this manner. Approximately \$190 million can be repatriated by way of intercompany debt repayments and the remaining \$490 million by way of taxable dividends and return of capital. Accordingly, we recorded a deferred tax liability to recognize the expected taxable elements of financing our plan of reorganization, \$42 million of which was provided in 2006. We have not provided for U.S. federal, state, local and foreign deferred income taxes on approximately \$220 million of undistributed earnings of foreign subsidiaries that we expect will be retained indefinitely by such subsidiaries for reinvestment.

We also have significant deferred tax assets primarily associated with asbestos and environmental liabilities that would reduce taxable income in future periods as such liabilities are funded, and net operating loss and tax credit carryforwards. In addition, we have deferred tax liabilities resulting primarily from deferred income, plant and equipment, and pension assets that may result in taxable amounts in future periods. Valuation allowances have been established and are maintained for certain deferred tax assets that exceeded our analysis of the amounts reasonably expected to be realized in the future. We reduced our valuation allowance related to future U.S. Federal income tax deductions in its entirety (\$48 million) as a result of our current forecasts of future U.S. taxable income.

Because of our current and future state tax profile and more restrictive laws governing utilization of tax loss carryforwards, we maintain a full valuation allowance against the benefit of future state income tax deductions and loss carryforwards. The valuation allowances relating to foreign loss carryfowards decreased by \$5.7 million in 2006 as a result of utilization or expiration.

The net decrease in the valuation allowance brings our total valuation allowance to \$185.2 million on net tax assets of \$885.9 million. The total valuation allowance covers (1) state tax deductions with a tax value of approximately \$146.9 million, which we do not expect to realize in reduced taxes due to timing limitations, (2) foreign loss carryforwards with a tax value of \$16.6 million, which we do not expect to be able to use during the relevant carryforward periods, and (3) \$21.7 million related to federal deferred tax assets related to foreign tax credit, general business credits and alternative minimum tax credit carryforwards. Based upon future anticipated results, we have concluded that it is more likely than not that we will realize the remaining net recorded deferred tax asset of \$700.7 million over time. A large proportion of such balance (primarily associated with asbestos- and environmental-related liabilities) is not yet time-limited as it pertains to liabilities not yet funded. Our recovery of such net tax assets could be materially affected by developments in our Chapter 11 proceeding.

Operating Segment Overview

The following is an overview of financial measures of the performance of our operating segments for the three years ended December 31, 2006, 2005 and 2004.

Grace Davison

Net Sales by Region *(In millions)*	2006	2005	2004
North America	**$ 536.9**	$ 508.9	$ 453.9
Europe	**643.8**	561.4	498.1
Asia Pacific	**261.9**	239.1	194.1
Latin America	**58.0**	60.8	46.1
Total Grace Davison	**$ 1,500.6**	$ 1,370.2	$ 1,192.2

Percentage Change in Net Sales by Region	2006 vs. 2005	2005 vs. 2004	2004 vs. 2003
North America	**5.5%**	12.1%	14.9%
Europe	**14.7%**	12.7%	19.1%
Asia Pacific	**9.5%**	23.2%	9.2%
Latin America	**(4.6%)**	31.9%	(5.3%)
Total Grace Davison	**9.5%**	14.9%	14.6%

Recent Acquisitions

See Note 5 to the Consolidated Financial Statements for a description of acquisitions completed in 2006 and 2005.

Sales

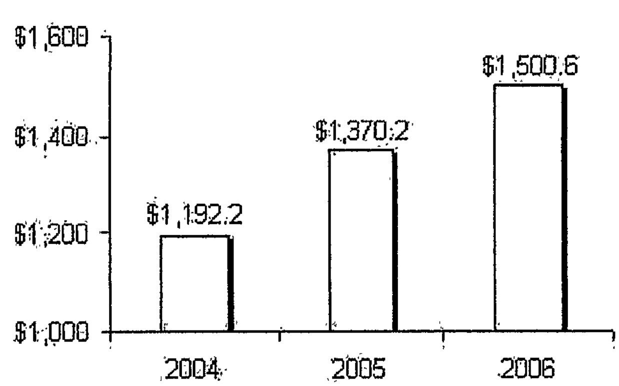
The key factors contributing to the Grace Davison sales increase over the three-year period were:

- Increased demand for catalysts used by petroleum refiners, particularly FCC catalysts used to produce clean fuels and hydroprocessing catalysts that upgrade low-quality, heavy crude oil
- A generally more favorable pricing environment for our products, as global manufacturing capacity in our markets became more highly utilized
- Growth in demand for specialty catalysts used in the manufacture of polyethylene and polypropylene, driven by strength in the U.S. economy
- Pass-through of higher costs for commodity metals and surcharges to partially offset inflation in natural gas and certain raw materials

Sales from acquisitions accounted for $12.6 million, or 0.9 percentage points of the sales growth in 2006, almost all of which was attributable to our acquisition of the specialty catalyst assets of Basell, USA.

Sales growth over the three-year period was strong in all regions except Latin America. Sales in Asia Pacific were up due to strong demand in all product groups particularly in China. In North America, increased sales were primarily attributable to volume growth, as well as favorable product price/mix, reflecting stronger economic activity in the United States. European sales were higher, reflecting improved general economic conditions and increased demand for refining catalysts and silica-based products. In Latin America, reduction in sales volume contributed to a sales decline in 2006.

Grace Davison Net Sales
($ in millions)

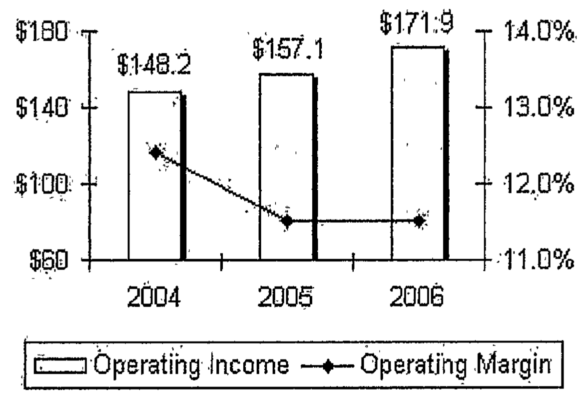


Operating Income and Margin

Grace Davison 2006 pretax operating income reflects higher volume and selling prices in most geographic regions and product groups. Other positive factors include the decline in fixed operating costs as a percentage of sales, improvements to manufacturing productivity, and the recovery from the hurricanes in the Gulf of Mexico in the latter half of 2005.

Pre-tax operating income for the Grace Davison segment was up in 2006 compared with 2005, primarily from higher sales in all regions and major product lines and from acquisitions; partially offset by higher raw material and energy costs. Operating margin was flat with 2005, but down slightly from 2004 due to higher rates of raw material inflation and a slight shift in product mix.

Grace Davison
Operating Income and Margin
($ in millions)



Grace Performance Chemicals

Net Sales by Region
(In millions)

	2006	2005	2004
North America	**$ 621.9**	$ 578.2	$ 525.1
Europe	**427.2**	374.7	317.6
Asia Pacific	**181.3**	164.1	155.1
Latin America	**95.5**	82.3	69.9
Total Grace Performance Chemicals	**$ 1,325.9**	$ 1,199.3	$ 1,067.7

Percentage Change in Net Sales by Region	2006 vs. 2005	2005 vs. 2004	2004 vs. 2003
North America	**7.6%**	10.1%	7.6%
Europe	**14.0%**	18.0%	22.8%
Asia Pacific	**10.5%**	5.8%	14.9%
Latin America	**16.0%**	17.7%	18.5%
Total Grace Performance Chemicals	**10.6%**	12.3%	13.5%

Recent Acquisitions

See Note 5 to the Consolidated Financial Statements for a description of acquisitions completed in 2006 and 2005.

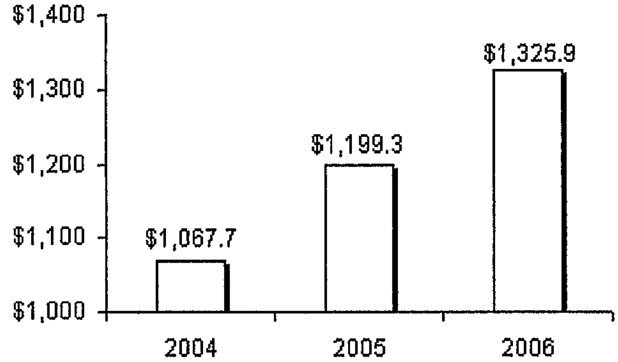
Sales

The key factors contributing to the increase in sales from our Grace Performance Chemicals operating segment over the three-year period were:

- Volume growth in products directed at high-growth industry, geographic and customer segments
- Continued strong commercial and residential construction activity in the US, Europe and Asia
- Higher selling prices in response to raw material inflation

Sales growth was strong in all regions over the three-year period. Sales increases in North America reflected higher commercial and residential construction activity, growth in our packaging products, new product launches, and the Triflex acquisition, which was completed in the fourth quarter of 2004. In Europe, higher sales were due to strong volume growth at key accounts and geographic expansion into Eastern Europe and the Middle East. Sales in Asia Pacific increased over the period as a result of increased commercial coverage in high growth economies. Sales in Latin America grew on higher demand for commercial construction products and packaging sealants and coatings.

Grace Performance Chemicals Net Sales
($ in millions)

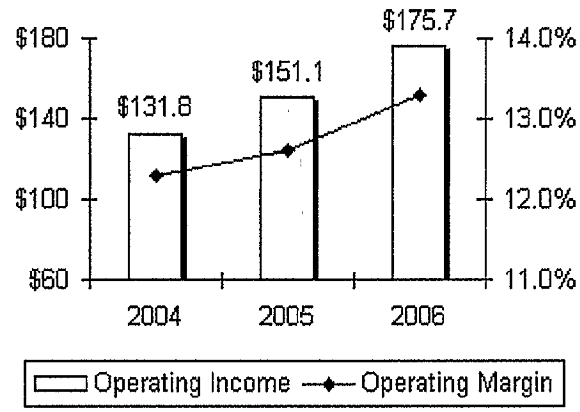


Operating Income and Margin

Grace Performance Chemicals 2006 operating income increased compared with 2005, reflecting higher sales volume, higher selling prices, and positive results from productivity initiatives, which were substantially offset by raw material inflation.

Increases in operating income for 2005 compared with 2004 were driven by higher sales volume, and positive results from productivity and cost containment initiatives, partially offset by raw material cost inflation.

Grace Performance Chemicals
Operating Income and Margin
($ in millions)



Operating Returns on Assets Employed —The following tables set forth the Grace Davison and Grace Performance Chemicals total asset position and pre-tax return on average total assets as of December 31, 2006, 2005 and 2004. We use the measure pre-tax return on average total assets as an indicator of our efficiency in using our assets and allocating our resources to generate earnings. We devote significantly higher capital to the manufacture of Grace Davison products than to the manufacture of Grace Performance Chemicals products. Conversely, non-manufacturing costs, particularly selling expenses, are significantly higher for Grace Performance Chemicals than for Grace Davison.

Grace Davison *(In millions)*	**2006**	**2005**	**2004**
Trade receivables	**$180.4**	$178.2	$172.0
Inventory	**192.3**	177.6	151.8
Other current assets	**15.8**	24.3	4.9
Total current assets	**388.5**	380.1	328.7
Properties and equipment, net	**402.3**	390.7	437.6
Goodwill and other intangible assets	**108.4**	98.2	105.7
Other assets	—	—	18.9
Total assets	**$899.2**	$869.0	$890.9
Pre-tax return on average total assets	**18.7%**	17.9%	17.8%

Grace Davison's total assets increased by $30.2 million in 2006 compared with the prior year. The increase was due to higher trade receivables and inventory, and from $43.2 million in higher foreign currency translation reflecting a weaker U.S. dollar period over period.

Grace Performance Chemicals *(In millions)*	**2006**	**2005**	**2004**
Trade receivables	**$245.1**	$222.7	$219.1
Inventory	**92.2**	100.7	96.5
Other current assets	**16.9**	15.7	14.5
Total current assets	**354.2**	339.1	330.1
Properties and equipment, net	**242.0**	226.5	236.7
Goodwill and other intangible assets	**92.6**	93.5	102.2
Other assets	**6.0**	6.5	5.5
Total assets	**$694.8**	$665.6	$674.5
Pre-tax return on average total assets	**25.2%**	22.4%	20.7%

Grace Performance Chemicals' total assets increased by $29.2 million in 2006 compared with the prior year. The increase was due to higher trade receivables and from $28.2 million in higher foreign currency translation due to a weaker U.S. dollar period over period.

Noncore Liabilities

We have a number of financial exposures originating from past businesses, products and events. These obligations arose from transactions and/or business practices that date to when Grace was a much larger company, when we produced products or operated businesses that are no longer part of our revenue base, when government regulation was less stringent and when scientific knowledge with respect to such businesses and products was much less advanced than today.

The following table summarizes our net noncore liabilities at December 31, 2006 and December 31, 2005:

Net Noncore Liabilities *(In millions)*	**December 31, 2006**	**December 31, 2005**
Asbestos-related liabilities	**$ (1,700.0)**	$ (1,700.0)
Asbestos-related insurance receivable	**500.0**	500.0
Asbestos-related liability, net	**(1,200.0)**	(1,200.0)
Environmental remediation	**(361.1)**	(342.0)
Postretirement benefits	**(72.7)**	(101.3)
Income taxes	**(141.2)**	(136.5)
Retained obligations and other	**(23.3)**	(23.4)
Net noncore liability	**$ (1,798.3)**	$ (1,803.2)

The resolution of most of these noncore recorded and contingent liabilities will be determined through the Chapter 11 proceedings. We cannot predict with any certainty how, and for what amounts, any of

these contingencies will be resolved. The amounts of these liabilities as ultimately determined through the Chapter 11 proceedings could be materially different from amounts we recorded at December 31, 2006.

Plan of Reorganization

As described under "Voluntary Bankruptcy Filing" in Notes 1 and 2 to the Consolidated Financial Statements, Grace and our principal U.S. operating subsidiary are debtors-in-possession under Chapter 11 of the bankruptcy code. Our non-U.S. subsidiaries, although not part of the Chapter 11 filing, are owned directly or indirectly by our principal operating subsidiary or other filing entities. Consequently, we expect that any Chapter 11 plan of reorganization, including our proposed plan of reorganization, will involve the combined value of our global businesses and other assets to fund (with cash and/or securities) our obligations as adjudicated through the bankruptcy process. We have analyzed our cash flow and capital needs to continue to fund our businesses and believe that, while in Chapter 11, sufficient cash flow and credit facilities are available to support our business strategy.

On January 13, 2005, we filed a plan of reorganization and related documents that amended our original plan of reorganization and disclosure statement filed on November 13, 2004 to address certain objections of creditors and other interested parties. The plan of reorganization is supported by committees representing general unsecured creditors and shareholders, but is not supported by committees representing asbestos personal injury claimants and asbestos property damage claimants or the representative of future asbestos claimants. See Note 2 to the Consolidated Financial Statements for more information on the plan of reorganization.

Risks of the Plan of Reorganization —We intend to address all pending and future asbestos-related claims and all other pre-petition claims as outlined in the plan of reorganization. However, we may not be successful in obtaining approval of the plan of reorganization by the bankruptcy court. Instead, a materially different plan of reorganization may ultimately be approved and, under the ultimate plan of reorganization, the interests of our shareholders could be substantially diluted or cancelled. The value of Grace common stock following a plan of reorganization, and the extent of any recovery by non-asbestos-related creditors, will depend principally on the amount of our asbestos-related liability under a confirmed plan of reorganization.

Our proposed plan of reorganization assumes several fundamental conditions including that:

- Our asbestos-related liabilities can be resolved at a net present value cost of no more than $1,700 million (including $87 million for pre-petition asbestos-related contractual settlements and judgments), including all property damage claims (including claims related to our former Zonolite Attic Insulation, or ZAI, product) and all pending and future personal injury claims; and

- The benefit of assets from litigation settlement agreements with Sealed Air Corporation and its subsidiary, Cryovac, Inc., and Fresenius Medical Care Holdings, Inc. will be available to satisfy liabilities under the plan of reorganization.

There can be no guarantee that these two fundamental conditions can be met. The measure of our asbestos-related liabilities could be settled by the bankruptcy court (in conformity with the plan of reorganization or otherwise), by a negotiation with interested parties, and/or under an alternative plan.

Any resolution, other than that reflected in the plan of reorganization, could have a material adverse effect on the percentage of Grace common stock to be retained by our current shareholders beyond that reflected in the proforma financial information presented below. We will adjust our financial statements and the proforma effects of the plan of reorganization as facts and circumstances warrant.

Proforma Financial Information —The plan of reorganization, as described above, contains certain assumptions that can only be confirmed with certainty at, or near, its effective date. The unaudited proforma financial information presented below reflects the accounting effects of our proposed plan of reorganization (1) as if it were put in effect on the date of our most recent consolidated balance sheet, December 31, 2006, and (2) as if it were in effect for the full year ended December 31, 2006. Proforma adjustments for tax effects have been applied at a 35% tax rate. The proforma financial information included herein, may not be consistent with the plan of reorganization documents filed on January 13, 2005 due to subsequent changes in operations and accounting estimates. Such proforma financial statements

reflect how our assets, liabilities, equity and income would be affected by the plan of reorganization as follows:

A. Borrowings Under New Debt Agreements and Contingencies

The plan of reorganization reflects the assumption that $1,000 million in debt financing will be available to fund settled claims payable at the effective date of the plan of reorganization (approximately $800 million) and to provide working capital (approximately $200 million) for continuing operations. No such financing currently exists but, we expect, based on discussions with prospective lenders, our sustained level of core operations while we have operated under Chapter 11, and publicly available information regarding funding available to comparable companies, that we could obtain financing at this level before the plan of reorganization is effective. In addition, the proforma financial information reflects $150 million in contingencies to pay professional and bank fees, other non-operating liabilities and their related tax effects that will not become liabilities until the effective date of the plan of reorganization. The $26.3 million adjustment to increase deferred taxes reflects the tax impact on $150 million in contingencies as described above, of which we estimate 50% would be deductible for tax purposes. Proforma adjustments related to the borrowings under new debt financing and contingencies have been denoted by the capital letter "A" in the proforma balance sheet presented below.

B. Fresenius and Sealed Air Settlements

The plan of reorganization reflects the value, in the form of cash and securities, expected to be realized under litigation settlement agreements as follows: $115.0 million of cash from Fresenius; and, $1,220.2 million of estimated value from Cryovac, Inc., a subsidiary of Sealed Air (calculated as of December 31, 2006) in the form of $512.5 million of cash plus accrued interest at 5.5% from December 21, 2002 compounded annually (approximately $123.4 million), and nine million shares of Sealed Air common stock valued at $64.92 per share (approximately $584.3 million). Tax accounts have been adjusted to reflect the satisfaction of our recorded liabilities by way of these third-party agreements. The Fresenius settlement amount will be payable directly to Grace and will be accounted for as income; however, we have presented the amount of the settlement as a proforma balance sheet adjustment only in order to avoid distorting the predictive value of the proforma statement of operations with this one-time gain. Payments under the Sealed Air settlement will be paid directly to the asbestos trust by Cryovac and will be accounted for as satisfaction of a portion of our recorded asbestos-related liability and a credit to shareholder's equity. Both the Sealed Air and Fresenius settlements are subject to the fulfillment of specified conditions. The $(40.3) million adjustment to deferred income taxes in the proforma balance sheet below represents the tax impact of the $115.0 million Fresenius settlement. The $(427.1) million adjustment to deferred income taxes represents the tax impact of the $1,220.2 Sealed Air settlement. Proforma adjustments related to the Fresenius and Sealed Air settlements have been denoted by the capital letter "B" in the proforma balance sheet presented below.

C. Payment of Pre-Petition Liabilities

The plan of reorganization reflects the transfer of funds and securities to settle estimated obligations payable under the plan of reorganization at the effective date. We would be required to issue approximately 22.1 million shares of Grace common stock, based on the closing price per share of $19.80 on December 31, 2006, for total proceeds of $437.3 million, and utilize cash of $1,066.0 million to settle these estimated obligations (see the adjustments denoted by the capital letter "C" in the proforma balance sheet below). The following table provides a calculation of the proforma share issuance:

Proforma Issuance of Shares *($ and shares in millions)*		**December 31, 2006**
Payment of asbestos claims	$	349.8
Less: portion related to general unsecured claims		(87.0)
	$	262.8
Value of unsecured claims paid with equity (15%)		174.5
Equity value distributable at emergence (22.1 million shares)	$	437.3
Equity value distributable post-emergence for PI-AO claims (6.6 million shares)		130.0
Total value of equity to satisfy claims	$	567.3
Closing price of shares at 12/31/06	$	19.80
Proforma shares to satisfy asbestos and general unsecured claims and post-emergence PI-AO claims		28.7
Add: Shares issuable upon exercise of in-the-money stock options		4.6
Proforma issuance of shares		33.3

We have adjusted tax accounts to reflect the change in the nature of our tax assets from predominately temporary differences to predominately time-limited tax net operating losses

for the payment of tax-deductible obligations such as asbestos claims and environmental claims (see the adjustments denoted by the capital letter **"D"** in the proforma balance sheet below). We have assumed non-asbestos pass-through liabilities will be paid in cash when due. A portion of the funding required to meet our emergence obligations will involve repatriating monies through a dividend from certain non-U.S. subsidiaries. We believe that the reserve related to repatriation of funds presently recorded will be adequate to absorb the U.S. tax effects of this dividend, assuming that we employ (as intended) certain tax planning strategies to preserve our net operating losses.

The following table presents a more detailed description of the proforma tax effects on our deferred tax assets related to net operating losses and temporary differences, net of valuation allowance of 1) the payment of pre-petition liabilities, 2) the Fresenius/Sealed Air payments, and 3) the structuring of emergence financing and receipt of dividends.

Summary of Change in Deferred Tax Asset Balances *(In millions)*	**Tax Effects of Net Operating Loss Carry-Forwards**	**Temporary Differences, Net of Valuation Allowance**
December 31, 2006 Balance As Reported	$ 66.8	$ 661.7
Proforma Adjustments:		
Contingent liabilities	—	26.3
Fresenius payment	(40.3)	—
Sealed Air payment	—	(427.1)
Emergence Payments & Other:		
Accrued interest	56.8	(56.8)
Asbestos claims	122.4	(122.4)
Environmental claims	85.5	(85.5)
Special pensions	4.7	(4.7)
Insurance recovery	(175.0)	175.0
Repatriation of foreign earnings	(111.6)	111.6
Other	13.0	(13.0)
Subtotal	(4.2)	4.2
December 31, 2006 Proforma Balance	$ 22.3	$ 265.1

D. Proforma Consolidated Statement of Operations and Capital Structure

The proforma income adjustments to our December 31, 2006 Consolidated Statements of Operations consist of:

- The elimination of all recorded charges and expenses directly related to Chapter 11, as these costs would not continue after effectiveness of the Plan, and the elimination of provisions recorded for environmental remediation obligations as we expect this risk would be resolved under the Plan (these eliminations are denoted by the capital letter **"E"** in the proforma statements of operations below);

- Adjustments to reduce Selling, General and Administrative Expenses and Other Income to eliminate noncore legal expenses, and noncore insurance income related to asbestos litigation, as the liabilities to which these noncore activities relate would be resolved as part of the Plan (these adjustments are denoted by the letter **"F"** in the proforma statements of operations below);

- The elimination of interest expense associated with pre-petition bank debt, and the addition of interest expense associated with the new $1,000.0 million in financing as discussed above, which results in the net increase in interest expense denoted by the adjustments marked by the letter **"G"** in the proforma statements of operations below;

- The tax effects of the proforma statements of operations adjustments at our effective tax rate (see the adjustments denoted by the capital letter **"H"** in the proforma statements of operations below); and

- The addition of new shares of Grace common stock related to the assumed financing of the plan of reorganization (see the adjustments denoted by the capital letter **"I"** in the proforma statements of operations below).

Proforma expenses reflect an assumed 7.4% average interest rate on outstanding borrowings, based on market conditions as of December 31, 2006. A hypothetical 1/8 percent variance in interest rates would increase or decrease our proforma net income (loss) by approximately $0.7 million for the year ended December 31, 2006.

For purposes of proforma earnings per share and proforma share capital, we used the trading price of $19.80 per share as of December 31, 2006 for calculating issued and outstanding shares. At this per share valuation, we assume that 22.1 million shares will be issued at the effective date of the plan of reorganization to fund asbestos and general

unsecured claims, 6.6 million shares would be issuable upon exercise of warrants to satisfy our estimate of PI-AO claims, and 4.6 million shares would be issued upon exercise of in-the-money stock options. We present the trading value solely to show proforma Consolidated Statements of Operations. This trading value may not be indicative of the actual trading value of Grace common stock following the effective date of the plan of reorganization. If our distributable value per share at the effective date of the plan of reorganization is below approximately $5.90 per share, we would be required to revalue our balance sheet for a change in control. (The trading value of Grace common stock over the twelve-month period ended December 31, 2006 was between $8.12 and $20.35 per share.) These proforma financial statements reflect no change in assets or income related to this potential accounting outcome.

E. Non-asbestos Contingencies

The accompanying proforma financial information assumes all non-asbestos related contingencies (including environmental, tax and civil and criminal litigation) are settled for recorded amounts as of December 31, 2006. Certain liabilities are assumed to be paid at the effective date of the plan of reorganization based on our estimate of amounts that will be determinable and payable. The remainder, which would also be subject to the plan of reorganization, if approved, is assumed to be paid subsequent to the effective date of the plan of reorganization as amounts are either not due until a later date or will be determined through post-effective-date litigation. The ultimate value of such claims may change materially as Chapter 11 and other legal proceedings further define our non-asbestos related obligations.

W.R. Grace & Co and Subsidiaries
Proforma Condensed Consolidated Balance Sheet
(In millions)

	December 31, 2006 As Reported	Proforma Adjustments: Borrowings Under New Debt Agreements and Contingencies	Proforma Adjustments: Sealed Air/Fresenius Settlements	Proforma Adjustments: Payment of Pre-Petition Liabilities	December 31, 2006 Proforma
ASSETS					
Current Assets					
Cash and cash equivalents	$ 536.3	$ 800.0 A	$ 115.0 B	$ (1,066.0) C	$ 385.3
Other current assets	832.5	—	—	—	832.5
Total Current Assets	1,368.8	800.0	115.0	(1,066.0)	1,217.8
Non-current operating assets	950.9	—	—	—	950.9
Cash value of life insurance	89.2	—	—	—	89.2
Deferred income taxes:					
Net operating loss carryforwards	66.8	—	(40.3) B	(4.2) D	22.3
Temporary differences, net of valuation allowance	661.7	26.3 A	(427.1) B	4.2 D	265.1
Asbestos-related insurance	500.0	—	—	—	500.0
Total Assets	$ 3,637.4	$ 826.3	$ (352.4)	$ (1,066.0)	$ 3,045.3
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Total current liabilities	$ 448.6	$ —	$ —	$ (0.7) C	$ 447.9
Long-term debt	0.2	800.0 A	—	—	800.2
Other noncurrent liabilities	516.8	—	—	—	516.8
Total Liabilities Not Subject to Compromise	965.6	800.0	—	(0.7) C	1,764.9
Bank debt/letters of credit/capital leases	739.5	—	—	(739.5) C	—
Liability for asbestos-related litigation and claims	1,700.0	—	(1,220.2) B	(349.8) C	130.0
Liability for environmental remediation	361.1	—	—	(244.3) C	116.8
Liability for postretirement health and special pensions	158.9	—	—	(12.7) C	146.2
Liability for accounts payable and litigation	120.9	—	—	(98.0) C	22.9
Liability for tax claims and contingencies	141.2	—	—	(8.3) C	132.9
Other nonoperating liabilities, including plan of reorganization contingencies	—	150.0 A	—	(50.0) C	100.0
Total Liabilities Subject to Compromise	3,221.6	150.0	(1,220.2)	(1,502.6)	648.8
Total Liabilities	4,187.2	950.0	(1,220.2)	(1,503.3)	2,413.7
Shareholder's Equity (Deficit)					
Share capital	424.6	—	—	437.3 C	861.9
Retained earnings and other equity items	(974.4)	(123.7) A	867.8 B	—	(230.3)
Total Shareholders' Equity (Deficit)	(549.8)	(123.7)	867.8	437.3	631.6
Total Liabilities and Shareholders' Equity (Deficit)	$ 3,637.4	$ 826.3	$ (352.4)	$ (1,066.0)	$ 3,045.3

Note: Proforma amounts in liabilities subject to compromise will be reclassed to liabilities not subject to compromise after the proposed plan is in effect.

W. R. Grace & Co. and Subsidiaries
Proforma Consolidated Statement of Operations
(In millions, except per share amounts)

	Year Ended December 31, 2006: As Reported	Proforma Adjustments	Proforma
Net Sales	$ 2,826.5	$ —	$ 2,826.5
Cost of goods sold, exclusive of depreciation and amortization shown separately below	1,845.0	—	1,845.0
Selling, general and administrative expenses, exclusive of net pension expense shown separately below	560.9	(74.4) F	486.5
Depreciation and amortization	113.5	—	113.5
Research and development expenses	63.8	—	63.8
Net pension expense	63.7	—	63.7
Interest expense and related financing costs	73.2	(12.9) G	60.3
Provision for environmental remediation	30.0	(30.0) E	—
Chapter 11 expenses, net of interest income	49.9	(49.9) E	—
Other (income) expense, net	(34.3)	12.5 F	(21.8)
Total costs and expenses	2,765.7	(154.7)	2,611.0
Income (loss) before income taxes and minority interest	60.8	154.7	215.5
Benefit from (provision for) income taxes	(8.1)	(37.3) H	(45.4)
Minority interest in consolidated entities	(34.4)	—	(34.4)
Net income (loss)	$ 18.3	$ 117.4	$ 135.7

Basic earnings (loss) per common share	$	0.27	$	—	$	1.43
Weighted average number of basic shares		67.9		26.7 I		94.6
Diluted earnings (loss) per common share	$	0.27	$	—	$	1.34
Weighted average number of diluted shares		68.3		33.3 I		101.6

Financial Condition, Liquidity and Capital Resources

Chapter 11-Related Information— See Note 2 to the Consolidated Financial Statements.

Asbestos-Related Litigation— See Note 3 to the Consolidated Financial Statements.

Environmental Matters — See Note 14 to the Consolidated Financial Statements.

Defined Contribution Retirement Plans — We sponsor a defined contribution retirement plan for our employees in the United States. This plan qualifies under section 401(k) of the U.S. tax code. At the present time, we contribute an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. We contributed $14.0 million, $13.0 million and $11.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Defined Benefit Pension Plans — We sponsor defined benefit pension plans for our employees in the United States, Canada, the United Kingdom, Australia, Germany, Italy, France, Spain, Denmark, Netherlands, Japan, Philippines, South Korea, Taiwan, South Africa, Brazil and Mexico and fund government sponsored programs in other countries where we operate. Certain of our sponsored plans are advance-funded and others are pay-as-you-go. The advance-funded plans are administered by trustees who direct the management of plan assets and arrange to have obligations paid when due out of a trust. The most significant advance-funded plans cover our salaried employees in the U.S. and U.K. and employees covered by collective bargaining agreements at certain of our U.S. facilities.

The following table presents the components of net pension expense and cash contributions for the advance-funded and pay-as-you-go plans:

Components of Net Pension Expense

(In millions)	2006	2005	2004
Annual pension benefits earned	**$ 24.7**	$ 23.3	$ 20.4
Interest on opening liability—advance-funded plans	**65.2**	64.7	66.0
Expected return on funded assets	**(71.3)**	(66.6)	(65.0)
Net financing of advance-funded plans	**(6.1)**	(1.9)	1.0
Interest on opening liability—pay-as-you-go plans	**10.8**	10.3	9.9
Net pension financing costs	**4.7**	8.4	10.9
Amortization of:			
Plan changes related to prior service	**3.2**	5.8	6.2
Accumulated differences between actual and assumed performance [1]	**31.1**	31.0	23.9
Net curtailment and settlement loss	**—**	3.4	0.5
Net pension catch-up expense	**34.3**	40.2	30.6
Total Net Pension Expense	**$ 63.7**	$ 71.9	$ 61.9

Cash Contributions to Defined Benefit Pension Plans

(In millions)	2006	2005	2004
U.S. advance-funded plans	**$ 101.4**	$ 24.1	$ 19.8
U.S. pay-as-you-go plans	**5.2**	10.9	4.4
Foreign advance-funded plans	**9.5**	7.6	4.3
Foreign pay-as-you-go plans	**5.4**	5.1	4.8
Total Cash Contributions	**$ 121.5**	$ 47.7	$ 33.3

(1) Primarily related to return on assets, termination, mortality, and data corrections

The following table presents the funded status of fully-funded, underfunded and unfunded pension plans:

Funded Status of Pension Plans	Fully-Funded (1) Pension Plans			Underfunded (1) Pension Plans			Unfunded (2) Pension Plans		
(In millions)	2006	2005	2004	2006	2005	2004	2006	2005	2004
Projected benefit obligation	$ **243.8**	$ 218.7	$ 213.7	$ **961.4**	$ 1,017.7	$ 1,009.0	$ **227.8**	$ 222.1	$ 217.8
Fair value of plan assets	**282.2**	232.8	222.8	**738.5**	649.8	668.6	**—**	—	—
Funded status (PBO basis)	$ **38.4**	$ 14.1	$ 9.1	$ **(222.9)**	$ (367.9)	$ (340.4)	$ **(227.8)**	$ (222.1)	$ (217.8)
Benefits paid	$ **(10.4)**	$ (9.0)	$ (9.0)	$ **(88.0)**	$ (81.2)	$ (70.4)	$ **(10.4)**	$ (15.9)	$ (9.2)

(1) Plans intended to be advance-funded .
(2) Plans intended to be pay-as-you-go.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires an employer to recognize the funded status of defined benefit pension plans and other postretirement benefit plans as an asset or liability in its statement of financial position, and requires recognition in other comprehensive income of gains or losses and prior service costs or credits arising during the period but which are not included as components of net periodic benefit cost. We adopted the provisions of SFAS No. 158 as of December 31, 2006. The incremental effect of applying this Statement on individual line items in the Consolidated Balance Sheet as of December 31, 2006 is presented in Note 1 to the Consolidated Financial Statements.

At the December 31, 2006 measurement date for the U.S. advance-funded defined benefit pension plans, the projected benefit obligation, or PBO, was approximately $949 million as measured under U.S. generally accepted accounting principles. The PBO is measured as the present value (using a 5.75% discount rate as of December 31, 2006) of vested and non-vested benefits earned from employee service to date, based upon current services and estimated future pay increases for active employees. This discount rate is based on a high quality bond portfolio designed to meet the payout pattern of the pension plans. Of the participants in the pension plans, approximately 82% are current retirees or employees of our former businesses, which skews the payout pattern to the nearer term. Assets available to fund the PBO at December 31, 2006 were approximately $737 million, or approximately $212 million less than the measured obligation.

It is our intention to satisfy obligations under the pension plans and to comply with the requirements of the Employee Retirement Income Security Act of 1974. On June 16, 2006, we obtained bankruptcy court approval to fund minimum required payments of approximately $92 million for the period from July 2006 through January 2007 for U.S. advance-funded plans. These estimated payments reflect the impact of the Pension Protection Act of 2006, which extended the interest rates required under the Pension Funding Equity Act of 2004 for plan years commencing in 2006 and 2007. In that regard, we contributed approximately $20 million in July 2006, approximately $45 million in September 2006, approximately $6 million in October 2006, and approximately $16 million in January 2007, to the trusts that hold the assets of these pension plans. There can be no assurance that the bankruptcy court will continue to approve arrangements to satisfy the funding needs of the Plans. Contributions to non-U.S. plans are not subject to bankruptcy court approval and we intend to fund such plans based on applicable legal requirements, and actuarial and trustee recommendations; $14.9 million was funded during the year ended December 31, 2006.

Total pension expense for 2006 was approximately $64 million, and benefit payments to retirees aggregated approximately $109 million for all pension programs in 2006. At December 31, 2006, our recorded pension liability for U.S. and non-U.S. underfunded plans was $450.7 million ($355.1 million included in liabilities not subject to compromise and $95.6 million related to supplemental pension benefits, included in "liabilities subject to compromise") which includes the following components: (1) shortfall between dedicated assets and PBO of underfunded plans ($222.9 million); and (2) PBO of pay-as-you-go plans ($227.8 million).

Postretirement Benefits Other Than Pensions — We provide certain health care and life insurance benefits for retired employees, a large majority of whom are retirees of divested businesses. These plans are unfunded, and we pay the costs of benefits under these plans as they are incurred.

Our share of benefits under this program was $13.9 million during 2006, compared with $11.9 million in 2005. Our recorded liability for postretirement benefits of $72.7 million at December 31, 2006 is stated at net present value discounted at 5.75% (as discussed under Defined Benefit Pension Plans). Our proposed plan of reorganization provides for the continuation of these benefits.

Tax Matters— See Notes 4 and 14 to the Consolidated Financial Statements and "Income Taxes" above for further discussion of our tax accounting and tax contingencies.

Other Contingencies— See Note 14 to the Consolidated Financial Statements for a discussion of our other contingent matters.

Cash Resources and Available Credit Facilities — At December 31, 2006, we had $536.3 million in cash and cash equivalents and $89.2 million in net cash value of life insurance. In addition, we had access to committed credit facilities in the U.S., Germany and France. In the U.S., under the $250.0 million DIP facility, $175.0 million was available at December 31, 2006, net of letters of credit and holdback provisions. The term of the DIP facility expires April 1, 2008. In Germany, under a €10.0 million line of credit, we had access to €2.4 million at December 31, 2006, net of bankers guarantees and other holdbacks. The term of the facility expires July 31, 2007. In France, under a €3.9 million line of credit, we had access to €3.4 million at December 31, 2006, net of bankers guarantees. The term of the facility expires May 31, 2007 and is expected to be renewed for an additional one-year period. We believe that these funds and credit facilities will be sufficient to finance our business strategy while in Chapter 11.

In January 2007, our German subsidiary entered into a line of credit arrangement with a German financing company in the maximum aggregate amount of €50.0 million secured by the accounts receivable of the German subsidiary. The financing arrangement will terminate on December 31, 2009, and includes financing costs based on the EURIBOR rate of interest, plus a minimum annual fee. The line was secured to provide liquidity for either our plan of reorganization or to fund growth in that region.

Debt and Other Contractual Obligations— Total debt outstanding at December 31, 2006 was $743.0 million, including $225.7 million of accrued interest on pre-petition debt. As a result of the Chapter 11 filing, we are now in default on $513.8 million of pre-petition debt, which, together with accrued interest thereon, has been included in "liabilities subject to compromise" as of December 31, 2006. The automatic stay provided under the bankruptcy code prevents our lenders from taking any action to collect the principal amounts as well as related accrued interest. However, we will continue to accrue and report interest on such debt during the Chapter 11 proceedings unless further developments lead management to conclude that it is probable that such interest will be compromised.

Set forth below are our contractual obligations as of December 31, 2006:

Contractual Obligations *(In millions)*	Payments due by Period Total	Less than 1 Year	1-3 Years	Thereafter	Payments due Upon Emergence from Chapter 11	After Emergence from Chapter 11
Operating commitments (1)	$ 61.2	$ 37.8	$ 20.0	$ 3.4	$ —	$ —
Debt	3.5	3.3	0.2	—	—	—
Capital leases	0.2	0.1	0.1	—	—	—
Operating leases	69.8	21.3	36.8	11.7	—	—
Liabilities subject to compromise (2) :						
Debt, pre-petition, plus accrued interest	739.5	—	—	—	739.5	—
Accrued interest on pre-petition obligations other than debt	51.4	—	—	—	51.4	—
Asbestos-related liability	1,700.0	—	—	—	1,570.0	130.0
Tax claims and contingencies	141.2	—	—	—	8.3	132.9
Environmental remediation	361.1	—	—	—	244.3	116.8
Postretirement health and special pensions	168.3	9.4	—	—	12.7	146.2
Accounts payable and litigation	69.5	—	—	—	46.6	22.9
Total liabilities subject to compromise	$ 3,231.0	$ 9.4	$ —	$ —	$ 2,672.8	$ 548.8
Pension funding requirements per ERISA (3)	180.8	93.3	87.5	— (4)	—	—
Total Contractual Obligations	$ 3,546.5	$ 165.2	$ 144.6	$ 15.1	$ 2,672.8	$ 548.8

(1) Amounts do not include open purchase commitments, which are routine in nature and normally settle within 90 days or obligations to employees under annual or long-term incentive programs.

(2) See Note 2 to the consolidated financial statements set forth elsewhere herein for a discussion of liabilities subject to compromise. Liabilities subject to compromise consist of estimated balances that may become due on the date of emergence from bankruptcy protection, which date is not certain at this time, or subsequent to emergence. Estimated amounts that may become due upon emergence have been presented in the "Upon Emergence from Chapter 11" column above and estimated amounts that may become due subsequent to emergence have been presented in the "After Emergence from Chapter 11" column, as we are not able to determine when these amounts will ultimately be settled. In accordance with SFAS No. 158, we have presented $9.4 million of certain estimated pension and postretirement obligations subject to compromise as current obligations in the December 31, 2006 Consolidated Balance Sheet.

(3) The 2008 and 2009 obligations do not reflect the impact of changes required by the Pension Protection Act of 2006 that are effective beginning in 2008.

(4) Amount has not yet been determined.

See Note 14 to the Consolidated Financial Statements for a discussion of financial assurances.

Analysis of Cash Flows

Cash Flow From Core Operations— Cash flows from core operations for 2006 were $186.2 million, compared with an inflow of $154.1 million for 2005. This increase in cash flows from core operations was primarily attributable to higher pre-tax operating income from core operations and decreased investment in working capital, partially offset by higher payments to fund defined benefit pension arrangements and increased capital expenditures. The decrease in cash flows from core operations from 2004 to 2005 was primarily attributable to an increase in working capital items, an increase in payments to fund defined benefit pension arrangements, and increased capital expenditures, partially offset by higher pre-tax operating income from core operations, and reduced spending on acquisitions.

Core Operations
(In millions)

	December 31,		
	2006	2005	2004
Cash flows:			
Pre-tax operating income	**$240.2**	$201.5	$179.3
Depreciation and amortization	**113.5**	120.9	115.3
Pre-tax earnings before depreciation and amortization	**353.7**	322.4	294.6
Working capital and other changes	**(28.7)**	(68.8)	33.6
Cash flow before investing	**325.0**	253.6	328.2
Capital expenditures	**(119.2)**	(94.0)	(75.3)
Businesses acquired	**(19.6)**	(5.5)	(66.3)
Net cash flow from core operations	**$186.2**	$154.1	$186.6

We expect to continue to invest excess cash flow and/or other available capital resources in our core business base. These investments are likely to be in the form of additional plant capacity, product line extensions and geographic market expansions, and/or acquisitions in existing product lines. Investments that are outside the ordinary course of business may be subject to bankruptcy court approval and review by the Chapter 11 creditor committees.

Cash Flow From Noncore Activities— The cash flow from our noncore activities can be volatile. Expenditures are generally governed by bankruptcy court rulings and receipts are generally nonrecurring. Much of the noncore spending in the past three years has been under Chapter 11 first-day motions that allow us to fund postretirement benefits and required environmental remediation on Grace-owned sites. Cash inflows have been from asbestos-related insurance recovery on pre-Chapter 11 liability payments, and unusual events. In April 2005, we made a $90 million payment to the U.S. Internal Revenue Service to fund taxes and interest on settled amounts as approved by the bankruptcy court.

Noncore Activities
(In millions)

	December 31,		
	2006	2005	2004
Cash flows:			
Pre-tax income (loss) from noncore activities	**$(97.7)**	$ (30.3)	$(457.1)
Net gain from litigation settlement	—	—	(51.2)
Provision for asbestos-related litigation, net	—	—	476.6
Other non-cash charges	**41.4**	49.9	100.5
Cash spending for:			
Noncore contingencies:			
Tax settlement	—	(90.0)	—
Environmental settlement	—	(29.7)	—
Environmental remediation	**(10.9)**	(6.7)	(9.0)
Postretirement benefits	**(13.9)**	(11.9)	(12.5)
Retained obligations and other	**(3.6)**	(1.0)	(1.8)
Net cash flow from noncore activities	**$(84.7)**	$(119.7)	$ 45.5

Net cash flow from core operations and net cash flow from noncore activities do not represent income or cash flow as defined under generally accepted accounting principles, and you should not consider them to be an alternative to such measures as an indicator of our performance. We provide these measures to permit you to distinguish operating results of our current business base from results and related assets and liabilities of past businesses, discontinued products, and corporate legacies and the effect of our Chapter 11 proceedings.

See the "Consolidated Statements of Cash Flows" included in the Consolidated Financial Statements for investing and financing activities for the years ended December 31, 2006, 2005 and 2004.

Inflation

The financial statements are presented on a historical cost basis and do not fully reflect the impact of prior years' inflation. While the U.S. inflation rate has been modest for several years, we operate in international economies with both inflation and currency risks. The ability to pass on inflation costs is an uncertainty due to general economic conditions and competitive situations.

The cost of replacing our property and equipment today is estimated to be greater than its historical cost. Accordingly, depreciation expense would be greater if the expense were stated on a current cost basis.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions affecting the assets and liabilities reported at the date of the Consolidated Financial Statements, and the revenues and expenses reported for the periods presented. We believe that our accounting estimates are appropriate and the related balances are reasonable; however, actual amounts could differ from the original estimates, requiring adjustments in future periods. Changes in estimates are recorded in the period identified. Our accounting policies are described in Note 1 to the Consolidated Financial Statements. Critical accounting estimates are described in this section.

An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates reasonably could have been used, or if changes in the estimate are reasonably likely to occur from period to period that could have a material impact on our financial condition or results of operations. As part of our quarterly disclosure controls and procedures, management has discussed the development, selection and disclosure of the critical accounting estimates with the Audit Committee of the Board of Directors. The accuracy of these and other estimates may be materially affected by the uncertainties arising under our Chapter 11 proceeding.

Contingent Liabilities —We have recorded a liability for the resolution of contingencies related to asbestos lawsuits, environmental remediation, income taxes and litigation. We record a liability if we have determined that a loss is probable, and we are able to reasonably estimate the amount of the loss or have another reasonable basis for recording a liability. We have determined that each of the contingencies discussed below involves an accounting judgment that is material to our Consolidated Financial Statements.

Asbestos-Related Lawsuits

We are a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products. See Note 3 to the Consolidated Financial Statements for a discussion of the background and status of the asbestos-related lawsuits, and how we are attempting to resolve them as part of our Chapter 11 proceeding. We have recorded a liability for our asbestos-related obligations as discussed below.

Prior to the Chapter 11 filing, we estimated our asbestos-related liability based on our experience with and recent trends in asbestos-related litigation. The cost to resolve asbestos personal injury claims was influenced by numerous variables, including the nature of the disease alleged, product identification, negotiation factors, the solvency of other former producers of asbestos-containing products, cross-claims by co-defendants, the rate at which new claims were being filed, the jurisdiction in which the claims were filed, and the defense and disposition costs associated with these claims.

The cost to resolve asbestos property damage claims was influenced by factors such as legal defenses, product identification, the amount and type of product involved, the age, type, size and use of the building, the legal status of the claimant, the jurisdictional history of prior cases, the court in which the case is pending, and the difficulty of asbestos abatement, if necessary.

Since the Chapter 11 filing, we have requested that the bankruptcy court conduct proceedings to determine the value of our asbestos-related liabilities. The bankruptcy court has scheduled a trial for estimating our asbestos personal injury liability for September 2007. The bankruptcy court has also scheduled hearings for the adjudication of asbestos property damage claims for the second quarter of 2007. We expect that the bankruptcy court proceedings may provide the basis for determining the amount that must be paid into a trust on the effective date of our plan of reorganization in respect of our asbestos-related claims.

Under our proposed plan of reorganization, it is a condition to confirmation of our proposed plan of reorganization that the bankruptcy court shall conclude that the amount necessary to fund all pending and future asbestos personal injury claims and property damage claims (and trust administration costs and expenses) is not greater than $1,613 million. This amount was based in part on our 2004 evaluation of (1) existing but unresolved personal injury and property damage claims, (2) actuarially-based projections of future

personal injury claims, (3) the risk of loss from the Zonolite attic insulation litigation, (4) proposed claim payments reflected in the plan, and (5) the cost of the trust administration and litigation. This condition precedent is the basis for our currently recorded asbestos-related liability.

We expect that there will be a wide range of asserted liability put forth by stakeholders in the bankruptcy proceedings, from amounts that would indicate liability less than that recorded at December 31, 2006, to amounts that would exceed the business value of Grace. Therefore, we will adjust our recorded asbestos-related liability, as necessary, to reflect rulings by the bankruptcy court.

Our asbestos-related insurance receivable is directly dependent on the amount and nature of our asbestos-related liability. We estimate the amount of the receivable based on our analysis of coverage remaining under insurance policies for the 1962 to 1985 period, and the terms of settlement agreements in effect with certain insurers.

Our liability for asbestos-related matters has had a material impact on our financial condition and results of operations, and future changes in such liability, if required, will likely lead to material adjustments to the Consolidated Financial Statements. We expect the ultimate determination of the resolution cost of this obligation will have a material impact on our liquidity and capital resources.

<u>Environmental Remediation</u>

We are obligated under applicable law to remediate certain properties related to our business or former businesses. At some sites we finance all or a portion of remediation conducted by third parties (generally state or Federal authorities) and at others, we perform the required remediation ourselves. Our environmental remediation obligation has a significant impact on our Consolidated Financial Statements. See Note 14 to the Consolidated Financial Statements for a discussion of our environmental remediation liabilities.

At sites where third parties conduct remediation, we estimate our obligations from information available from regulatory authorities including actual costs incurred, expected future costs and time to completion.

At sites where we conduct remediation, we work with regulatory authorities to define compliance requirements and then estimate the cost required to meet those requirements. We base our estimates on our historical knowledge and engineering assessments specific to conditions at each site and we update our estimates as necessary.

Our estimates can fluctuate significantly due to the extended duration of some remediation projects. The accuracy of our estimates is dependent on the validity of assumptions regarding such matters as labor rates, indirect costs and capital costs (such as building materials), which are difficult to forecast over extended periods. We cannot estimate the impact on our Consolidated Financial Statements of using other reasonably possible assumptions because we primarily rely on the assumptions and estimates of the applicable regulatory authorities. Future changes in estimates, if required, will more than likely lead to material adjustments to our Consolidated Financial Statements, and we expect the ultimate resolution of these obligations to have a material impact on our liquidity and capital resources.

<u>Litigation</u>

We are subject to legal proceedings and claims arising out of the normal course of business. We are currently a party to various legal proceedings, both civil and criminal in nature, in which we have been named as a defendant. See Note 14 to the Consolidated Financial Statements for a discussion of our significant legal proceedings.

To estimate the cost to resolve our legal obligations, we review the facts of each matter to determine the probability of a loss. If we determine that a loss is probable, we determine if there is sufficient information to make a reasonable estimate of the loss amount. Our estimates regarding the outcome of our legal proceedings and claims involve substantial uncertainties that could cause our actual losses to differ materially from our estimates. In estimating the likely outcome of a legal proceeding, we consider the nature of the specific claim (or unasserted claim), our experience with similar claims, the jurisdiction in which the proceeding is filed, court rulings, the status of any settlement negotiations, the likelihood of resolution through settlement or alternative dispute resolution, the proceeding's current status and other relevant information and events. We adjust our recorded

liability for litigation contingencies as necessary to reflect our current evaluation of these and other factors.

Pension and Other Postretirement Benefits Expenses and Liabilities —We sponsor defined benefit pension plans for our employees in the United States, Canada, the United Kingdom, Australia, Germany, Italy, France, Spain, Denmark, Netherlands, Japan, Philippines, South Korea, Taiwan, South Africa, Brazil and Mexico and fund government sponsored programs in other countries where we operate. See Note 18 to the Consolidated Financial Statements for a detailed discussion of our pension plans and other postretirement benefit plans.

In order to estimate our pension and other postretirement benefits expenses and liabilities, we evaluate the range of possible assumptions to be used in the calculation of pension and other postretirement benefits expenses and liabilities. We select the assumptions that we believe to be most indicative of factors such as participant demographics, past experiences and market indices, and provide the assumptions to independent actuaries. These assumptions are updated annually and primarily include factors such as discount rates, health care cost trend rates, expected return on plan assets, mortality rates, retirement rates, and rate of compensation increase. The independent actuaries review our assumptions for reasonableness, and use the assumptions to calculate our estimated liability and future pension expense. We review the actuarial reports for reasonableness and adjust our expenses and liabilities to reflect the amounts calculated in the actuarial reports.

Income Taxes — We are a global enterprise with operations in more than 40 countries. This global reach results in a complexity of tax regulations, which require assessments of applicable tax law and judgments in estimating our ultimate income tax liability. See Notes 4 and 14 to the Consolidated Financial Statements for a detailed discussion of our estimates used in accounting for income taxes and income tax contingencies.

We record a liability for income tax contingencies when it is more likely than not that a tax position we have taken will not be sustained upon audit. We evaluate such likelihood based on relevant facts and tax law. We adjust our recorded liability for income tax matters due to changes in circumstances or new uncertainties, such as amendments to existing tax law. Our ultimate tax liability depends upon many factors, including negotiations with taxing authorities in the jurisdictions in which we operate, outcomes of tax litigation and resolution of disputes arising from federal, state, and international tax audits. Due to the varying tax laws in each jurisdiction senior management with the assistance of local tax advisors as necessary, assesses individual matters in each jurisdiction on a case-by-case basis. We research and evaluate our income tax positions, including why we believe they are compliant with income tax regulations, and these positions are documented internally.

Deferred income taxes result from the differences between the financial and tax basis of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. If it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is provided against such deferred tax assets. Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. The assessment of realization of deferred tax assets is performed annually under scenarios of future taxable income and tax planning alternatives that are considered reasonable in the circumstances.

Recent Accounting Pronouncements

See Note 1 of Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect on us.

Market Risk

Our debt obligations, global operations, the nature of the specialty chemicals production process and the industries in which we engage expose us to various market risks. We utilize derivative financial instruments and derivative commodity instruments to mitigate certain market risks. The following is a discussion of our primary market risk exposures, how those exposures are managed, and certain quantitative data pertaining to our market risk sensitive instruments.

Interest Rate Risk

Interest rate fluctuations directly affect interest expense and cash to be paid out in the form of interest payments on variable-rate debt, and can potentially lead to changes in the market value of the associated variable-rate debt.

We have $500 million of outstanding pre-petition variable-rate borrowings under bank revolving credit agreements, and interest is accrued on this debt based on the prime rate. Due to our Chapter 11 filing, interest accrued on pre-petition debt is added to the principal balance. As of December 31, 2006 and 2005, total interest accrued on this debt and added to the $500 million principal was $223.1 million and $168.5 million, respectively. If the prime rate were to vary in the near-term by one percentage point, the effect would be to increase or decrease interest expense and outstanding principal by approximately $7.7 million over the twelve-month period ended December 31, 2007.

We also maintain a $250 million debtor-in-possession facility. The interest rate under this facility is based on LIBOR, a variable rate. As of December 31, 2006 and 2005, no amount was outstanding under this facility, and $175.0 million and $211.3 million, respectively, was available to us, net of letters of credit and holdback provisions.

We do not currently use derivative instruments to attempt to mitigate interest rate risk.

Foreign Currency Exchange Rate Risk

Because we do business in over 40 countries, our results of operations are exposed to fluctuations in foreign exchange rates. We seek to minimize exposure to these fluctuations by matching revenue streams in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time, we use financial instruments such as foreign currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, we do not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective, particularly translation exposures that are not expected to affect cash flows in the near-term. Significant uses of derivatives to mitigate the effects of changes in foreign currency exchange rates are as follows:

In May 2004, we purchased forward contracts with a U.S. bank to minimize currency risk related to a Euro-denominated intercompany loan due from one of our German subsidiaries to one of our U.S. subsidiaries. In June 2005, we extended a portion of the forward contract amounts to dates that mature on the dates of the scheduled principal repayments. As part of the contract extension, we were required to pay a settlement premium of $9.3 million to the bank. We expect this settlement premium will be recovered over time as the contracts are settled at rates greater than the initial rates in the May 2004 foreign currency forward contracts. Currency fluctuations on this loan are recorded as a component of operating results. The loan is denominated in Euros, and the total amount outstanding under the intercompany loan was €134.8 million and €200.7 million as of December 31, 2006 and 2005, respectively (approximately $177.6 million and $237.5 million, respectively).

The following tables provide information about our significant foreign currency forward exchange agreements as of December 31, 2006, specifically, the notional, or contract, amounts (in millions of $U.S.), and weighted average exchange rates ($U.S. to Euros) by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The fair values represent the fair value of the derivative contracts.

	Euro Forward Contract—December 31, 2006			
	Expected Maturity Date			
Forward Exchange Agreements	2007	2008	Total	Fair Value
Contract amount	92.8	79.1	171.9	(11.6)
Average contractual exchange rate	1.27	1.28	1.27	N/A

	Euro Forward Contract—December 31, 2005			
	Expected Maturity Date			
Forward Exchange Agreements	2006	2007	2008	Total
Contract amount	83.1	92.8	79.1	255.0
Average contractual exchange rate	1.26	1.27	1.28	1.27

The fair value of the Euro forward contract was approximately $9.5 million at December 31, 2005.

Our U.S. subsidiaries purchase a significant amount of products from our Canadian subsidiaries, and these purchases are denominated in Canadian dollars (CAD). From time to time, we may purchase foreign currency exchange rate forward contracts and/or options in order to reduce the impact of currency exchange to

our consolidated gross margin as a result of intercompany transactions denominated in CAD. In 2006, we purchased CAD forward contracts and options to acquire CAD from a U.S. financial institution to hedge foreign currency exposures related to intercompany purchases of products from our Canadian subsidiaries. At December 31, 2006, there were no CAD options contracts outstanding. We have entered into outstanding CAD forward contracts with a total notional value of 10.6 million CAD (approximately $9.1 million as of December 31, 2006) and a weighted average strike price of CAD 1.1215/$U.S. The last of the CAD forward contracts will mature in September 2007. The fair value of the CAD forward contracts at December 31, 2006 was not material.

The fair values of foreign currency exchange rate derivative contracts are presented as other assets or other liabilities and allocated between current and non-current, as appropriate, in the Consolidated Balance Sheets.

Commodity Price Risk

We operate in markets where the prices of raw materials and energy are commonly affected by cyclical movements of the economy. The principal raw materials used in our products include caustic, alumina, rare earths, nickel, aluminum, cobalt carbonate, kaolin, molybdenum, sodium aluminate, sodium silicate, olefins, gypsum, resins, rubber and latices. Natural gas is the largest single energy source that we purchase. These commodities are generally available to be purchased from more than one supplier. In order to minimize the risk of increasing prices on its significant raw materials and energy, we have moved towards a centralized supply chain organization for procurement in order to improve purchasing activities. We have also formed a risk management committee to review proposals to hedge purchases of raw materials, energy and currency.

Natural gas prices can be volatile, as experienced during 2005 in the aftermath of the hurricanes in the Gulf of Mexico. These disasters caused a significant increase in natural gas prices that negatively impacted our production costs in the third and fourth quarters of 2005. We have implemented an energy risk management program under which our goal is to hedge natural gas supply in a way that provides protection against the continued price volatility of the natural gas market. In order to mitigate volatile natural gas prices, we have entered into forward contracts, fixed price swaps and options to hedge a portion of our 2007 natural gas requirements. As of December 31, 2006, we have not entered into any commodity derivatives to hedge raw material prices.

The following tables provide information about our forward contracts, swaps and options that are sensitive to changes in commodity prices, specifically natural gas prices. Contract volumes, or notional amounts, are presented in millions of British thermal units (MMBtu), weighted average contract prices are presented in $U.S. per MMBtu, and the total contract amount and fair value are presented in millions of $U.S. The fair values represent the fair value of the derivative contracts. The fair value for swaps represents the excess of the variable price (market price) over the fixed price (pay price) multiplied by the nominal contract volumes. The fair value of options represents the excess of the market value amounts (as quoted on commodity exchanges) over the contract amount. All commodity derivative instruments mature in the subsequent year.

	Commodity Derivatives—December 31, 2006			
Type of Contract	**Contract Volumes**	**Weighted Average Price**	**Total Contract Amount**	**Fair Value**
Forwards	0.6	10.56	6.0	3.5
Swaps	2.0	8.10	16.2	(1.7)

	Commodity Derivatives—December 31, 2005			
Type of Contract	**Contract Volumes**	**Weighted Average Price**	**Total Contract Amount**	**Fair Value**
Forwards	1.7	11.63	19.9	18.9
Call options	0.3	11.00	3.3	—
Put options	0.4	11.00	4.4	0.1

The fair value of commodity swaps and options derivative contracts are presented as other assets or other liabilities and allocated between current and non-current, as appropriate, in the Consolidated Balance Sheets. Our forward contracts for natural gas qualify for the normal purchases and normal sales exception from SFAS No. 133, as they do not contain net settlement provisions, and result in physical delivery of natural gas from suppliers. Therefore, the fair values of these contracts are not recorded in our Consolidated Balance Sheets.

W. R. GRACE & CO. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)

For the Year 2006

Description	Balance at beginning of period	Additions/(deductions) Charged/ (credited) to costs and expenses	Cash received/ (paid)	Other net (1)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 6.7	$ 1.6	$ —	$ —	$ 8.3
Allowances for long-term receivables	0.7	(0.2)	—	—	0.5
Allowances for inventory obsolescence	6.7	0.1	—	—	6.8
Valuation allowance for deferred tax assets	245.3	(60.1)	—	—	185.2
Reserves:					
Reserves for asbestos-related litigation	1,700.0	—	—	—	1,700.0
Reserves for environmental remediation	342.0	30.0	(10.9)	—	361.1
Reserves for retained obligations of divested businesses	$ 23.4	$ 4.0	$ (3.6)	$ (0.5)	$ 23.3

For the Year 2005

Description	Balance at beginning of period	Additions/(deductions) Charged/ (credited) to costs and expenses	Cash received/ (paid)	Other net (1)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 7.5	$ (0.8)	$ —	$ —	$ 6.7
Allowances for long-term receivables	0.8	(0.1)	—	—	0.7
Allowances for inventory obsolescence	9.1	(2.4)	—	—	6.7
Valuation allowance for deferred tax assets	242.6	2.7	—	—	245.3
Reserves:					
Reserves for asbestos-related litigation	1,700.0	—	—	—	1,700.0
Reserves for environmental remediation	345.0	25.0	(6.7)	(21.3)	342.0
Reserves for retained obligations of divested businesses	$ 25.1	$ 5.0	$ (4.7)	$ (2.0)	$ 23.4

For the Year 2004

Description	Balance at beginning of period	Additions/(deductions) Charged/ (credited) to costs and expenses	Cash received/ (paid)	Other net (1)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 6.3	$ 1.2	$ —	$ —	$ 7.5
Allowances for long-term receivables	0.7	0.1	—	—	0.8
Allowances for inventory obsolescence	4.0	2.0	—	3.1	9.1
Valuation allowance for deferred tax assets	168.3	74.3	—	—	242.6
Reserves:					
Reserves for asbestos-related litigation	992.3	714.8	10.6	(17.7)	1,700.0
Reserves for environmental remediation	332.4	21.6	(9.0)	—	345.0
Reserves for retained obligations of divested businesses	$ 27.0	$ —	$ (1.8)	$ (0.1)	$ 25.1

(1) Various miscellaneous adjustments against reserves.

Exhibit 12

W. R. GRACE & CO. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS [1]
(In millions, except ratios)
(Unaudited)

	Years Ended December 31, [2]				
	2006 [3]	2005 [3]	2004 [4]	2003 [5]	2002 [6]
Net income (loss) from continuing operations	$ **18.3**	$ 67.3	$ (402.3)	$ (55.2)	$ 22.1
Provision for (benefit from) income taxes	**8.1**	21.3	(1.5)	(12.3)	38.0
Minority interest in income (loss) of majority owned subsidiaries	**32.8**	19.7	8.1	(1.5)	2.0
Equity in unremitted losses (earnings) of less than 50%-owned companies	—	—	—	0.3	0.1
Interest expense and related financing costs, including amortization of capitalized interest	**74.1**	56.6	112.6	17.5	22.3
Estimated amount of rental expense deemed to represent the interest factor	**6.2**	6.2	5.6	5.1	4.9
Income (loss) as adjusted	$ **139.5**	$ 171.1	$ (277.5)	$ (46.1)	$ 89.4
Combined fixed charges and preferred stock dividends:					
Interest expense and related financing costs, including capitalized interest	$ **74.2**	$ 54.9	$ 100.7	$ 18.0	$ 21.8
Estimated amount of rental expense deemed to represent the interest factor	**6.2**	6.2	5.6	5.1	5.0
Fixed charges	**80.4**	61.1	106.3	23.1	26.8
Combined fixed charges and preferred stock dividends	$ **80.4**	$ 61.1	$ 106.3	$ 23.1	$ 26.8
Ratio of earnings to fixed charges	**1.74**	2.80	[7]	[7]	3.34
Ratio of earnings to combined fixed charges and preferred stock dividends	**1.74**	2.80	[7]	[7]	3.34

(1) Grace preferred stocks were retired in 1996.
(2) Certain amounts have been restated to conform to the 2006 presentation.
(3) Amounts in 2006 and 2005 contain provisions for environmental remediation of $30.0 million and $25.0 million, respectively.
(4) Amounts reflect the following adjustments: a $476.6 million accrual to increase our recorded asbestos-related liability, net of expected insurance recovery of $238.2 million; a $94.1 million accrual to increase our estimate of interest to which general unsecured creditors would be entitled; and a $151.7 million credit for net income tax benefits related to the items described above.
(5) Amounts include $172.5 million for pre-tax charges to adjust our estimated liability for environmental remediation and asbestos-related property damage.
(6) Amounts contain a provision for non-operating environmental remediation of $70.7 million.
(7) As a result of the losses incurred for the years ended December 31, 2004 and 2003, we were unable to fully cover the indicated fixed charges (a shortfall of $383.8 million and $69.2 million, respectively).

EXHIBIT 4.10

FR:1792512.3

[Non-binding Translation from German]

The Contracting Parties

GRACE GmbH & Co. KG
In der Hollerhecke 1

67547 Worms

as seller of receivables (hereinafter referred to as the ***Premium Client***)

client number: 2006/207

and

Coface Finanz GmbH
Isaac-Fulda-Allee 5

55124 Mainz

as purchaser of receivables (hereinafter referred to as ***CF***)

Special Provisions:

The subject-matter of this Contract is the revolving purchase of trade receivables owed to Grace GmbH & Co. KG in Worms by the debtors (Customers) specified in Schedule 1 a).

The list of Customers may be expanded or restricted if so requested by the ***Premium Client*** at any time. At the beginning of the contractual relationship, the ***Premium Client*** and ***CF*** therefore determined the ***Premium Client***'s customers from among which the ***Premium Client*** may select the Customers. These customers are listed in Schedule 1 b). The ***Premium Client*** will apply for changes regarding the Customers by providing the new list of Customers to ***CF***; such changes will be subject to a limit stipulated by ***CF***. The ***Premium Client*** will offer to ***CF*** all outstanding receivables due from the designated Customers.

Page 2 of the Contract (Term Sheet)

I. Basic information

a) Maximum aggregate amount The maximum aggregate amount of the receivables to be purchased, less that part of the purchase price which is to be retained, is	**50 million EUROS (EUR 50,000,000.00)** The average exposure should be at least EUR 25,000,000.00.
b) Selected debtors	As set out in **Schedule 1**
c) Delcredere insurance (Clause 10)	not applicable
d) Debtors' registered offices (countries)	not applicable
e) Approved credit insurer	not applicable
f) Contract number(s) of the approved credit insurer	not applicable
g) Maximum credit period (Clause 3.2 b)	90-180 days
h) Purchase of existing receivables (Clause 3.7)	Yes
i) Maximum credit period for purchase of existing receivables (Clause 3.7)	30 days
j) Reminder procedure (Clause 14.1)	In accordance with the established reminder practice of the ***Premium Client***
k) Balance settlement procedure (description of procedure for PLAF clients)	**Yes**
l) Aggregated first loss	not applicable
m) Commencement and end of the Contract (Clause 27.1)	The Contract will commence on 1 Jan. 2007 and will end no earlier than on 31 Dec. 2009.
n) Purchase price retention (Clause 6)	10%

II. Up-front fees (one-off payment)

o) Structuring / Due diligence	EUR 50,000.00

III. Ongoing fees

p) For financing	**All-in margin: 3-month EURIBOR +0.97%**
q) Special audits (Clauses 8.2, 24.3)	EUR 5,000.00 per special audit
r) Minimum fee	EUR 175,000.00 per contractual year (calculated by reference to the margin in accordance with No. III p)

Page 3 of the Contract (Covenant Agreement)

I. Preamble

In view of the magnitude of the commitment, it has been agreed to define clear quality guidelines within which the commitment is to remain. In addition, the economic development of the ***Premium Client*** is of material significance for the assessment of its creditworthiness by ***CF***.

This Covenant Agreement relates to the individual accounts of the ***Premium Client*** prepared in accordance with the German Commercial Code (*Handelsgesetzbuch* ; **HGB**). For the avoidance of doubt, it is understood that this Covenant Agreement represents only part of the risk assessment relating to the ***Premium Client*** and is therefore not conclusive. The risk assessment in particular also depends on the performance of contractual obligations to suppliers, the debtors' structure, the structure of the receivables portfolio and the extent of delcredere cases.

II. Covenants

The ***Premium Client*** undertakes for the term of this Contract to comply with the following financial covenants, each as at the balance sheet date of the individual accounts of the ***Premium Client***:

The liable equity of the ***Premium Client*** is at least 40% of the balance sheet total.

The above key figure will be calculated by the ***Premium Client*** using the following calculation scheme:

	Equity	**Balance sheet total**
	Capital shares	Balance sheet total according to individual accounts
—	Outstanding contributions	
—	Goodwill	Goodwill
+/—	Liabilities/receivables due to/from Grace Holding GmbH	Receivables due from Grace Holding GmbH or partner(s)
+	Liabilities due to affiliated companies (remaining term > 5 years)	
+	Capital reserves	

+/- Liabilities/receivables due to/from partner(s)

+/— Net profit/loss for the year

+/— Cumulative profit/loss

= **Liable equity** = **Balance sheet total**

Calculation of the equity ratio:

$$\frac{\text{Equity} * 100}{\text{Balance sheet total}}$$

The calculation is to be based on the ***Premium Client*** 's audited individual annual accounts for the relevant financial year, using the same accounting and valuation methods as in the previous years.

The ***Premium Client*** will evidence compliance with the above financial covenants on an annual basis by presenting the audited annual accounts and will confirm such compliance in writing. The relevant documents shall be submitted to ***CF*** without a request having to be made and without delay (*unverzüglich*) after being prepared, but no later than by 30 June of the respective following year, and shall always be prepared using the same accounting and valuation method.

The ***Premium Client*** further undertakes for the term of this Contract

- to inform ***CF*** promptly and continuously about the progress of the Chapter 11 proceedings relating to its US parent company by providing the quarterly reports (so-called "10q filings") and annual reports (so-called "10k filings") to ***CF***. Should the Chapter 11 proceedings be expanded to include further Group companies, the ***Premium Client*** shall notify ***CF*** thereof without delay.

- as regards the agreement of other terms and conditions (in particular financial covenants relating to compliance with certain key figures and/or the maintenance of a certain economic and financial situation), not to place ***CF*** in a worse position than any other financing partner.

- to notify ***CF*** without delay of any present and future agreements on financial covenants with other credit institutions and not to place these credit institutions in a better position with respect to the agreement of, and compliance with, financial covenants than ***CF***. Should the ***Premium Client*** wish to agree financial covenants with other credit institutions which would place these credit institutions in a better position than ***CF***, it will offer to ***CF*** to conclude a supplementary agreement under which ***CF*** is placed in the same position with regard to the financial covenants as the other credit institutions.

- to notify ***CF*** in future without delay of any purchase of companies by the German Grace partial group that leads to a material change in the balance sheet structure.

In the event that the ***Premium Client*** fails to comply with the obligations set out above and/or the financial covenants agreed above, or in the event that the ***Premium Client*** fails to confirm compliance with the financial covenants in good time by presenting the corresponding documents, ***CF*** will fix a period of 30 days during which the ***Premium Client*** may cure such breach of contract. If the fixed period has expired without a result, ***CF*** shall first be entitled to demand that the ***Premium Client*** create or enhance bankable security in order to secure the claims of ***CF*** under this Contract. This shall not affect any further rights to which ***CF*** is entitled under this Contract or any other agreement.

III. Obligations to provide information

The ***Premium Client*** shall regularly evidence compliance with the financial covenants to ***CF*** . ***CF*** shall be informed without delay of any breach or any facts or circumstances endangering compliance. To evidence compliance, the following documents shall be presented to ***CF*** :

- Quarterly financial reports, notification of the attainment of targets in accordance with Schedule 2.

- Audited annual accounts including auditors' reports on the Group accounts.

During the term of the PLAF Contract, the ***Premium Client*** will retain the accounting and valuation methods used immediately prior to the conclusion of the PLAF Contract. The documents to be submitted must be prepared in accordance with the same principles as the Group accounts; in the event of deviation from these principles, a document shall be submitted which explains in detail each different bookkeeping and accounting approach and its effects. All financial information will be prepared in the German or English language at the ***Premium Client*** 's option and must be confirmed by the ***Premium Client*** to be correct and complete.

If different accounting and valuation methods are used in the preparation of future annual accounts, the ***Premium Client*** shall notify ***CF*** of these differences when presenting the annual accounts and explain them in detail. ***CF*** may request the key financial figures to be adjusted by mutual agreement such that compliance with the adjusted key financial figures reflects the same economic situation with the use of the amended accounting and valuation methods as would compliance with the key financial figures applicable up to that time if the previous accounting and valuation methods had been used.

IV. Legal consequences

The ***Premium Client*** and ***CF*** agree that an increased risk assessment in respect of the ***Premium Client*** is justified if the requirements relating to the ***Premium Client*** 's economic situation agreed above are breached.

In this case, ***CF*** is entitled to reduce the maximum aggregate amount for the duration of the non-compliance with the financial requirements according to the scale set out below:

1. Adjustment of the maximum aggregate amount

a. In the event of breach of any of the agreed key financial figures stipulated in Clause II of this agreement by an amount of up to (and including) *10%* of the relevant target figure, ***CF*** is entitled to reduce the maximum aggregate amount by up to *20%* of this maximum aggregate amount without having to notify the ***Premium Client*** .

b. In the event of breach of one of the agreed key financial figures stipulated in Clause II of this agreement by an amount of more than *10%* of the relevant target figure, ***CF*** is entitled to reduce the maximum aggregate amount by up to *50%* of this maximum aggregate amount without having to notify the ***Premium Client***.

c. In the event of breach of one of the agreed key financial figures stipulated in Clause II of this agreement by an amount of more than *20%* of the relevant target figure, ***CF*** is entitled to reduce the maximum aggregate amount to zero.

The ***Premium Client*** will have the possibility to cure breaches of key financial figures stipulated in Clause II of this agreement within 30 days. ***CF*** waives any adjustments under Clause IV (1) within this period.

2. Right of extraordinary termination

In addition, in the event of any breach of one of the agreed key financial figures, ***CF*** has a right of extraordinary termination for good cause (*aus wichtigem Grund*) vis-à-vis the ***Premium Client***. The ***Premium Client***'s legitimate interests will be safeguarded in this context by a notice period of 1 month before the end of a month during which the ***Premium Client*** will have the possibility to cure the breach of the financial covenants.

After the end of the notice period, the ***Premium Client*** will also have a right of extraordinary termination which will release it from all obligations under this Contract. Should the charges paid in accordance with Page 2 No. III. p) in the relevant contractual year be lower than the minimum fee set out on Page 2, No. III. r. at the relevant time, the ***Premium Client*** shall pay to ***CF*** the difference between the agreed minimum fee set out on Page 2, No. III. r., and the charges already paid.

3. Amendment of terms and conditions

In the event of a breach of covenants agreed herein, ***CF*** may, at its option and in agreement with the ***Premium Client***, amend the agreed terms and conditions. Should agreement on the amendment of terms and conditions not be reached within a period of one month, the parties are entitled to extraordinary termination of this Contract.

IV. Improvement in economic key figures

Should the ***Premium Client'*** s receivables portfolio increase due to its positive economic development, ***CF*** will examine the possibility to increase the maximum aggregate amount. The maximum aggregate amount will only be increased with the prior consent of the competent bodies of ***CF***.